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Status of Rails and Industrials Compared.

Railroads Next!

Why the Stocks of the Railroads Should Sell at Higher Prices—Position of War Stocks

By THOMAS GIBSON, Author of "Pitfalls of Speculation, Etc."

THE FAILURE of the railroad stocks to respond in any measurable degree to the excited movements in the group of industrial issues known as the "war stocks" has caused considerable comment and some surprise. There are, however, adequate explanations at hand for this phenomenon.

The basic reasons may be classified as follows:

1. Foreign liquidation of railroad issues.
2. Uncertainty and apprehension as to the political situation.
3. The record of poor railroad earnings for the fiscal year ended June 30.

The first phase of the trouble is the most important and has been greatly overestimated. When war first broke out there was a hurried effort to gain some knowledge as to the extent of foreign ownership of our securities. Aside from the estimate prepared in 1909 by Sir George Paish, giving foreign holdings of our securities at about six billion dollars, mostly in railroad bonds and stocks, no data of any kind was available. This estimate had been rendered obsolete by the lapse of time between the date of its preparation and the date of hostilities, especially in the light of the heavy foreign liquidation which began with the outbreak of trouble in the Balkans in 1911. Nevertheless, it was accepted in the absence of anything better, and led to some grotesque popular conclusions.

The public assumed that the bulk of this great sum was in stocks, and that these stocks would be returned to us forthwith. As a matter of fact, the stocks made up not more than 25% of the total and, for that matter, the estimated total was wrong. Also the Paish figure was necessarily based on par valuations, while actual average market value was about $50 per share, as foreign holdings included large amounts of such low-priced stocks as M. K. & T. and Mo. Pacific.

The Loree estimate, which has recently been published, is the first dependable figure we have had as to foreign ownership of our securities. This gives a total of all railroad issues held abroad as $2,576,401,342, par value. Of this amount, common stocks make up $633,892,162, par value, or about $316,900,000 market value, which makes the original popular estimates appear rather absurd.

The apprehension as to our ability to absorb whatever of these securities Europeans saw fit to liquidate was increased by another popular fallacy regarding the extent of our dependence on foreign capital. In the absence of any definite figures people reverted to the last *known* condition. They knew that in civil war times Europe, and particularly Great Britain, had furnished practically all the capital for financing our railroad building. How far this indicates the present situation may be seen at a glance by applying the Loree estimate to the total of our railroad capitalization, which is something over twenty billions. We are now doing about 87½% of our own railroad financing.

However, there has unquestionably been a considerable amount of foreign selling of our stocks, and this has served to hold prices back. When we reflect that we have taken back these securities at panic prices; paid for them with a greatly inflated commodity dollar; that the commodities are perennial and can be produced again next year, while bonds and stocks held abroad are a perpetual drain in the form of dividends and interest, it is safe to say that we have been engaged in one of the most immensely profitable trading operations in our history. It is a matter for congratulation that this absorption of our own securities and liquidation of our own debts has been effected without serious disturbance.

Even with the estimates revised and the ghost of dependence on foreign capital banished, a great many people hold the opinion that the addition to our floating supply of stocks and the probability of further sales by foreigners will act as a check on advancing prices. This would be true if the absorption had been by public speculators, who buy for the purpose of gaining a small profit, and who would sell again on any moderate advance. But such has not been the case. The buying has been by strong interests, who will sell only when their funds can be more safely or advantageously employed elsewhere. It is difficult to imagine where they will find such an opportunity in the near future.

Effect of New Security Issues

There is another point on which I have never heard any comment, but which is of great importance in looking to the probable future of security prices. I refer to the production of new securities. With growth of wealth and population, demand for investment issues increases and supply is ordinarily adjusted to meet demand. Any disparity between supply and demand is reflected in security prices as certainly as it is in the prices of wheat, corn or cotton. We may better realize the effect of a shortage in the supply of securities by reflecting on the fact that great advances in prices are not made by the dormant bulk of securities held by investors, but by the *residue,* or floating supply. For example, Atchison has about $200,000,000 of common stock outstanding. The purchase of $20,000,000 worth of that stock in the open market growing out of a stimulated demand, speculative or otherwise, might advance the price, say, 10 points, raising its quoted value $2,000,000. But with no action whatever on the part of the holders of the dormant 90%, their securities would be enhanced marketwise by $18,000,000. It was not the $180,000,000 of dormant stock which "made the market" but the comparatively insignificant residue.

I cannot pretend, in the limits assigned to me at present, to go into details as to the supply of new stocks in recent years, but it has been very small. This decreased supply makes room, so to speak, for the securities returned to us. That is exactly what happened just before the great bull movement of 1901. Great Britain, when the Boer war began, returned about $375,000,000 of our securities, and the question of our ability to absorb this liquidation was as much a problem in 1900 and early in 1901 as it is today. But the supply of new issues had been very small for several years, and as soon as absorption was completed and a moderate demand appeared, the market made a great advance. The supply of new issues since 1910 has been abnormally small, particularly in common stocks. In 1910 we issued $491,786,000 of railroad common stocks; 1911,

$364,749,000; 1912, $173,832,000; 1913, $106,350,000; 1914, $41,212,000, and in the five months so far reported this year, $5,485,000. What is more important, there is no remote probability of any considerable future increase in the supply of railway stocks, except through the exchange of convertible bonds for stocks. That is to say, the supply cannot increase until the prices of present issues advance far enough to make conversion profitable.

I recommend these points in regard to supply and demand to the earnest consideration of the reader.

Another objection made to the railroad stocks is that Europe will not be able to supply us with her usual annual quota of capital for new construction and extensions. So far as our argument is concerned, this contention is *ex parte*. The fact that new lines cannot be built does not prejudice the immediate status of existing lines. Extensions, intelligently made, are admittedly profitable in the long run, but are more apt to be a drawback than an advantage for a few years.

Uncertainty Over Political Situation

The uncertainty and apprehension over the European political situation may be summed up in a few words. Evil possibilities are always magnified by Wall Street. We have but to compare the predictions of disaster to our shipping, our foreign exchange markets, our gold supply, our cotton and copper, etc., which were so prevalent last August, with the actual course of events, to realize the truth of this statement. When danger threatens, Wall Street promptly discounts the worst that can be imagined. It is *because* of this uncertainty and apprehension that good securities can be purchased now at the lowest prices since 1907.

The poor earnings of last year are of no importance whatever. They are records of the past, have been fully discounted and have no bearing on the future course of prices. It appears incredible that many people should attempt to *speculate* on what is *known* in direct defiance of the meaning of the word; but that is the case. The speculative problem now is confined to what railroad earnings will be this year, not what they were last year.

Why Neglect the Rails?

But the most potent factor of all in the neglect of railroad securities recently, as well as in many cases in the past, is of a wholly psychological character. The average public speculator must have something which appeals to the imagination. He conjures up visions of tremendous profits in a few days instead of reasonably large profits in a few months. At present, his imagination is catered to in the most attractive form by the so-called "war stocks."

Many of these corporations will make large profits. There is no doubt about that, but there is absolutely no dependable data as to the size of their orders or the probable amount of ultimate profits. The very fact that nothing definite, or even approximate, is known makes the proposition more alluring. It gives the imagination a clear and unbounded field. It is of no use, in such circumstances, to point out to the average speculator that certain railroad issues have a very high property value; that their earnings show a large surplus over dividends; that the prices of the stocks are very low, and the return on money invested very high. "There should be twenty points profit in such a stock in the next year," the advisor remarks. "Pshaw," responds the speculator, "I could have made 100 points in Bethlehem Steel in a month." That is the end of the argument, so far as the speculator is concerned.

The War Stocks

To offer any prediction as to what the war stocks will do in the near future would be rash. They might do anything. The possible price limits are as wide as the imagination of speculators, and that is boundless. The only safe prediction that can be offered is that ninety-nine out of a hundred of the people who continue to gamble in these issues will "go broke." But that is no drawback, for each man considers himself as the fortunate hundredth.

Without undertaking the thankless task of prophecy, a few technical points in regard to the war issues may be of interest:

1. These issues differ from the rails or other standard securities, in

that they are bought to be sold again in a few days, without any regard to return on money or property value. There is no absorption, except the temporary absorption by pools for manipulative purposes. Therefore the whole mass of these stocks is always hanging over the market, rendering it highly vulnerable in case of bad news or competitive selling from any cause.

2. The value and price of an industrial stock is properly based upon its ability to earn and *maintain* dividends, and to increase its profits gradually from year to year, not upon the securing of abnormal profits in a single year. Present prices are not so based.

3. The great profits now claimed, even if secured, will never be distributed to the holders of common stocks. Some of the companies will increase dividends or pay banuses, but the bulk of the profits will go into the property. This is not the same thing as actual distribution. The United States Steel Corporation has conserved for common stockholders over half a billion dollars since organization, but that does not appeal to the speculative imagination in any marked degree.

4. The pools operating in war stocks have only one conceivable object in view, and that is to unload their holdings on the public at high prices. This being accomplished, the public will have to unload on each other, all trying to get out at the same time.

In 1898 we have the beginning of just such an orgy of public speculation in industrial stocks as we are entertaining at present, but in a somewhat modified degree. In that year many trusts were formed and industrial securities became the speculative fashion of the day. From the beginning of 1898 to the middle of 1899 the industrials advanced much more rapidly than the rails. But mark what followed. In 1900 and 1901 the *Wall Street Journal's* average prices of 20 railroad and 12 industrial issues showed the following changes:

	Average Price, Jan. 1, '00	Average Price, Jan. 1, '01	Average Price, Jan. 1, '02
20 Rails	78.86	94.79	116.67
12 Industrials ..	68.13	70.04	64.32

The public had the industrial stocks at the beginning of 1900; the insiders had the rails. The rails in the next two years made an average advance of 37.81 points, while industrials actually declined in the same period. The net result of all this was that while the buyers of railroad issues were participating in one of the greatest bull markets in history, the buyers of industrials were having a most disgusting and unsatisfactory time. Sooner or later we will have a repetition of that experience.

A good many conservative people find it impossible to understand why a large number of otherwise reasonable people will indulge in ventures in stocks they know nothing about and can tell nothing about especially at a time when the counters are littered with bargains in the standard stocks. Walter Bagehot's explanation of panics may throw some light on the subject. He says:

> "At particular times a *great many stupid people* have a *great deal* of *stupid money*. This blind capital seeks for someone to devour it and there is plethora; it finds someone, and there is *speculation*; it is devoured, and *there is panic*."

Note.—It will be interesting to compare Mr. Gibson's views on the "war stocks" with those expressed by Paul Clay in the article entitled "Are the War Stocks Selling Too Tigh?"

Are the War Stocks Too High?

Bethlehem—Crucible Steel - Both Sides of the Argument

By PAUL CLAY

THE GROWING belief that the war stocks are already too high, and that to buy them at current prices or even on sharp breaks is so hazardous as to be folly, deserves examination. As a usual thing it is true that a stock which has a violent rise will have an equally violent fall. So is it generally true that there can be no increase in intrinsic values anywhere near so sudden as the recent rise in prices. However, all ordinary economic business principles are upset in war times; and the general nature of the upset is that artificial conditions and values temporarily drive out and supplant natural conditions and values.

Expert judges of values are about equally divided between those who think that even at the present high prices the war stocks should be bought, and those who think they should be let alone. Some of these stocks are no longer accepted as collateral for bank loans, and cannot be bought on margin, except on very wide margins, in responsible houses. The arguments of these two opposing views are so convincing and based upon such well established facts and principles that it may perhaps be impossible to determine which is right until this war shall have determined it, along with the many other questions which hang in the balance. It is proper then to present first the one side and then the other.

The Bull Argument

THE fundamental contention of the bulls is that some of the war stocks upon the basis of earnings are cheap even at present prices, and that these stocks in a great war are bound to continue their upward trend somewhat regardless of intrinsic values, until there is a very definite prospect of early peace. Undoubtedly it is true that judged solely by earnings some of these stocks are cheap. Especially is this the case with Bethlehem Steel.

Other steel companies in 1914 showed a loss of 25 to 30 per cent. from the previous year in the amount of gross business done; and the Bethlehem would doubtless have done likewise but for its war business. In other words, but for this business, its gross earnings would have been about $14,500,000 less than they actually were. Now up to the end of 1914 war orders had scarcely begun to appear in large volume. The big orders did not make their appearance until April or May the current year. It seems probable that this company during 1915 will turn out at least three times as much war business as it did last year. Especially is this true in view of the fact that it takes three to six months to fill these orders, and that the company therefore did not have time enough between August 4 and December 31, 1914 to show what it could do in this line.

Last year's apparent war business multiplied by 3 would be $43,500,000, and the company's ordinary commercial business amounts to about $30,000,000 per annum, and on December 31 the unfilled orders were $46,513,190. Thus the available business for the present calendar year may be conservatively estimated at $120,000,000; and in view of the great improvement in the company's plants during the past decade probably the producing capacity may be placed at $90,000,000.

The average margin of profit even for 1913, without any of this extra profitable war business, was 21.98 per cent. for this company. Now the presumption is that profits on war busi-

ness are from 50 to 100 per cent. above normal. Such was the case in the Civil War and such is the case in the present war on practically all commodities and products regarding which the actual margin of profit can be learned. But for the sake of conservatism let us place the margin at only 20 per cent.

This margin on $90,000,000 of gross means total profits of $18,000,000; and deducting from this fixed charges liberally estimated at $5,000,000 there should remain for dividends $13,000,000 or more. Deducting the preferred dividend requirements of $1,050,000, there should remain for the common $11,950,000 or 79 per cent.

Now the question is whether this justifies the present price. During the three years 1910 to 1912 inclusive the stock sold at an average price of $33.23, and earned an average of 6.67 per cent. on par. Thus it sold at a price equivalent to five times its yearly surplus earnings per share. Now, if it were to sell at a price equivalent to five times its present yearly surplus earnings per share, that price according to the above estimates, would be about $395.

We have an entirely similar situation in Westinghouse Electric, which is apparently earning about 25 per cent. as compared with a previous average of 6 to 9 per cent.; and in Crucible Steel and the other war stocks. Westinghouse is not as high on the basis of earnings as it was a year ago, or two years ago, or three years ago. Furthermore this estimate of its earning power is based upon a conservative figure for the war business, it being assumed that such business for the coming year will be less than $24,000,000 and that the total gross business of all kinds will be less than $50,000,000.

Secondly the bulls argue that at any price at all the war stocks are not, and cannot be too high, so long as there is no end of the war in sight. In the Civil War the fall of Vicksburg and the battle of Gettysburg, which were the first decisive victories of the north, occurred the first week in July, 1863, but the bull market did not end until April, 1864. Thus it was nine months after the Confederacy was practically beaten before the war orders stopped coming in sufficiently to terminate the bull market in stocks. Meanwhile the boom went forward in a way which surely seems to furnish ample precedent for the present bull movement.

At that time the age of industrial corporations was yet to come, but still history affords some illustrations of what industrial stocks could do. The copper production of the United States was then small enough so that all our copper was in demand for the making of ammunition. There was a rise in ingot copper from 17½ cents to 55 cents, and a great boom in copper stocks. Central Copper went up from $3 in 1861 to 74 in 1864; Copper Falls from 2 to 57; and Quincy from 19¼ to 112. Dividend payments were enormously increased. Quincy, for example, paid $14 in 1864 as compared with nothing in 1861.

Other stocks which profited by the war also immensely increased their earnings and dividend payments, and shared in the rampant bull market. Hamilton Woolen Mills rose from 120 in 1861 to 430 in 1865; Manchester Print Mills from 800 in 1861 to 2,235 in 1863; and Pacific Mills from 775 to 2,240. Washington Mills advanced from 45 to 250; Cumberland Coal preferred from 4 to 95; and Canton Company common from 8 to 74¾.

The Bear Side

THE bear side of the argument is that it is utterly impossible within the short duration of any war to place either physical assets or any other kind of permanent values behind these high prices. Intrinsic values cannot change over night; the big profits are due principally to the manner in which the companies overcharge the government for the munitions and supplies which it is forced to purchase, and when this extortion ceases the war stocks slump right back to their previous prices. Indeed in some cases they go lower, because of having invested large amounts of money in plants for the production of war munitions, and of learning after the war that these plants are almost a dead loss.

As an example of the way war stocks

act after the big war orders stop coming in, it is cited that from 1864 to 1867 Central Copper slumped from 74 to 20; and during the same bear movement Copper Falls fell from 57 to 14¼; Quincy from 112 to 15; Manchester Print Mills from 2,235 to 1,300; Pacific Mills from 2,240 to 1,550; Washington Mills from 250 to 95; Cumberland Coal preferred from 95 to 31; Canton Company common from 74¾ to 25½; Quicksilver from 101¾ to 46; and the average of fifteen representative New York railroad shares from 170 to 112.

Earning power in war times is no measure of intrinsic value because that earning power is temporary. If a stock in times of peace has a normal earning power of 12 per cent. and pays 6 per cent., it is worth about 96 we will say, regardless of assets. But at the time it is not really regardless of assets because the investor in paying 96 takes into consideration the fact that the other 6 per cent. which is earned, but is not paid out in dividends, is put back into the property, thus increasing the intrinsic value of the stock by six points every year. This yearly gain of six points will in a short period of years raise the intrinsic value of the stock to the full 96 or more, even if its present asset value be only 40 or 50.

In this case the stock earning 12 per cent. and selling at 96 is worth eight times its yearly surplus earnings per share; but it does not follow that a war stock earning say 50 per cent. is also worth eight times its yearly surplus earnings. That all depends upon the length of the war. If, for example, this war stock has a par value of $100, and has assets behind it of $50, it would take the entire first year's earnings of the war to raise the asset value of the stock to par. Thus if the war and the war profits were to last only one year, the stock at the end of that year instead of being worth eight times 50 or 400, would be worth only 100. This 100 would be the sum of the original asset value of $50 plus the 50 per cent. on par earned during the year.

Bethlehem Steel, for instance, at the current price of 265 will not stand the slightest analysis as a sound investment. This may be clearly seen by observing what a price of 265 discounts. Let us grant for the sake of illustration that the stock before the war was intrinsically worth 50, and that it is now making earnings of 79 per cent.; and let us assume that the present selling price represents a selling basis of 8 per cent. Such a selling basis would mean, considering the present price, that the stock should pay yearly dividends and bonuses aggregating 21.2 per cent. All these are reasonable beliefs or assumptions.

Now it is plainly evident that the stock at 265 has discounted a continuation of both the war and the big war orders for more than three years. Three years' earnings at 79 per cent. would amount to $237 and three years' dividends at 21.2 per cent. would be $63.60, so that the net addition for the three year period to the original value of the stock would be only $173.40. Adding to this the original value, namely $50, and the total intrinsic value of the stock even at the end of three years of enormously profitable business would be only $223. Thus the stock is already selling about as high now as it should sell in the summer of 1918, provided the company's boom business continued throughout the whole period with the prospect of additional war orders undiminished.

Some other stocks including Crucible Steel, American Coal Products common, American Locomotive common and American Can common, will not stand investment analysis even as well as does Bethlehem Steel. In short, the bears contend that while the war stocks may keep on rising so long as there is not a sign of peace, they will some day begin to slump and catch the public unawares. The increase in their permanent investment values is not more than one-tenth to one-twentieth as great as the rise in their prices.

We have presented both sides of the case; and a fair conclusion seems to be that while the war stocks even at these inflated prices *may* still *make good* as pure *speculations,* they are altogether *too high* to be considered as *permanent* investments.

MONEY - BANKING - BUSINESS

What Thinking Men Are Saying

About Financial, Investment and Business Conditions

Are We Blowing a South Sea Bubble?

THE more conservative interests in Wall Street are naturally opposed to the excited speculation in war order stocks which has recently been in progress. The banks, hungry as they are for interest on their money in this time of unexampled plethora of funds, are already taking a cautious position in regard to loans on war stocks as collateral. Both sides of the argument are presented in articles in this issue, but the old-fashioned part of Wall Street—and that is a very large part—sees only the conservative side. Thus the *Chronicle* says:

No one can tell how much longer the war in Europe will last, but whether the period of prolongation be two months or two years, the business growing out of the same is essentially ephemeral in character and offers no basis for an enduring rise in values. Profits may be large for the time being, but the period of their duration is necessarily limited, and in the long run the value of a stock must be dependent entirely upon the course and nature of its ordinary business. Even the prospective large profits from the war orders may, it is quite apparent, be readily jeopardized. War expenditures are upon such a huge scale that it is difficult to see how much longer, if the war continues, most of the countries engaged in it can avoid bankruptcy; and moneys due from a bankrupt country, either for purchases of war supplies or of anything else, will obviously be difficult to collect.

Then again, the war may terminate suddenly, removing the present pressing need for war supplies. Existing contracts doubtless provide for deliveries for many months to come, but the moment the existing urgency for immediate supplies is removed specifications can easily be enforced in such a way as to lead to the rejection of the deliveries with the deliberate purpose of avoiding payment.

As a matter of fact, there is so much instability connected with the war order business that except in a few special instances it affords scarcely any basis at all for an era of speculation and inflated prices such as we are now witnessing.

Facts like these should control legitimate investors. Those engaged on the Stock Exchange in whirling prices up ten to fifty points a day are not of that class. Their purpose is to deceive, to create a great speculative furore, which will lead the unwary, the innocent and guileless to rush in while the movement is being carried to dizzy heights and allow the manipulators to get out with huge profits. A candid presentation of the actual facts concerning the war order business is the only thing that can prevent the successful consummation of such schemes.

* * *

"The Abuse of Credit."—J. J. Hill.

SO long as the banks continue to loan freely on the war stocks at rapidly rising prices, a steady inflation of credit results. Moreover, it is a form of credit which is of the least use to the substantial business interests of the country. James J. Hill touches on this subject in the bulletin of the National Association of Credit Men:

The commonest form of the abuse of credit in the past has been the issue by governments of cheap money. Possibly the world has grown too wise to fall again into the trap of this delusion. But it is doing, or permitting, practically the same thing in other forms. The excessive capitalization of trusts and of some less spectacular enterprises has much the same effect as an issue of cheap money. Stocks and bonds are put out which represent little or nothing in the shape of actual values. A concern which, fifteen or twenty years ago, would have thought it plunging to enlarge its capital stock to half a million dollars will incorporate today for ten millions. The purpose is to get out sheaves of securities and sell them for cash, regardless of their actual value or probable return. Once in the hands of the public such stocks and bonds are more or less used as collateral for bank loans. To the extent to which they are so accepted they enlarge the volume of credit and of the actual circulating medium of the country.

In the year 1912 bonds, stocks and notes were issued to a total of $2,253,587,300 by private corporations. In the last five years over $8,600,000,000 of such paper, good, bad or indifferent, came into being. If Congress had authorized the issue of $5,000,000,000 in greenbacks there would have been a revolution. Much the same thing has happened, so far as prices and industry are concerned, by the inflation of the credit basis; yet wise-acres are

still arguing about the causes of the rise in prices and the high cost of living.

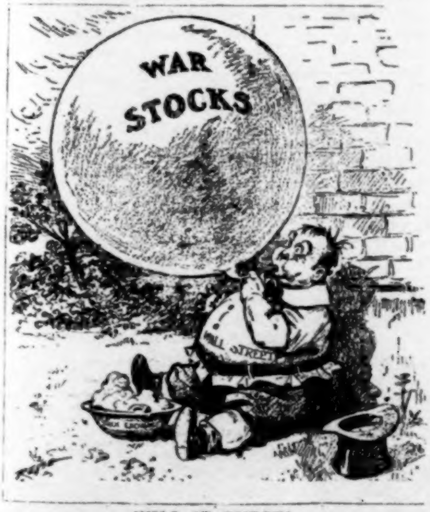
The same effect is produced by the increase of public indebtedness everywhere. The issue of a State, city or county bond affects credit volume more powerfully and produces more directly all the effects of an increase in money volume, because it is acceptable as collateral for nearly or quite its face value in credit issues. The whole American public is wild with spending. Public economy is a lost art.

Now, not only has the consequent total tax burden on the people of this country risen to about $38.50 per capita, or nearly $200 per annum for each family of five persons, but most of these bond issues are at once used to expand the credit total. The bonds of public corporations are considered good security, because repudiation still has an ugly name in this country, however rapidly we may be running toward it. Credit accounts of one sort or another are established against them. Just so much more is added, in the form of instruments of credit, to the actual circulating medium.

* * *

"No Gold Crossing the Atlantic."—Reynolds.

A FEATURE of the war munitions business which speculators in the war stocks may well stop to consider is that it is nearly all being done on some form of credit, direct or indirect. On this point George M. Reynolds, president of the Continental & Commercial National Bank of Chicago, says:



WILL IT BURST?

—*N. Y. World.*

War orders and foreign loans in America are greatly exaggerated. Europe owes our manufacturers and exporters over $1,000,000,000. How much longer manufacturers will extend credit is for them to determine. American bankers are not encouraging customers to sell a great deal abroad on credit. Very little gold is crossing the Atlantic either way and when our manufacturers feel that they must demand cash for goods, so as to have money to keep going, we may expect the climax of the situation.

On the other hand, some of the war order companies have safeguarded themselves fully in regard to payment, and they are without doubt making big profits. *Boston News Bureau:*

Earnings, not dividends, make prices. Many industrials, I need scarcely add, now sell very high because they are earning big surpluses though they pay nothing. Many railroad stocks are quoted very low because their "margin of safety" is only nominal. And never in the history of the Stock Exchange have so many non-dividend paying stocks ruled at such exalted levels. Bethlehem and General Motors, with profits too great to be talked about, verge towards double par. In short, perhaps a score of industrial issues are today quoted from the 50's to 100 or higher which make no return to their owners. But it goes without saying that in most cases stockholders will ultimately get handsome rewards. War stocks which have led the rise in that quarter of the list will undoubtedly surprise their most optimistic friends. There are tangible grounds, I am given to understand, for the talk of big stock dividends in some of these cases.

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The Public Is Puzzled.

WHILE the plungers have been—so far, at any rate—making big profits in the war speculation, the general public has rather held aloof and finds itself in a puzzled frame of mind. The reasons for this are given in the first of the following quotations:

Keane, Zayas & Potts: The investing public is avowedly puzzled, not to say mystified, by present day market phenomena. It has been warned against "war stocks" and advised to put its savings into standard railway shares. Yet it sees "war stocks" soaring upward in price and standard rail shares sagging. It knows it has been advised in good faith, and yet the daily price list provides ocular demonstration that the advice is not good. The consequence is that the more conservative among them adopt a doubtful and do-nothing attitude toward the market at the very moment when genuine bargains are obtainable by buyers who are able to discriminate—by those who are

able to visualize the process by which "war stocks" are being inflated and the inevitable consequence of such inflation, and who are able also to reason out the cause of the depression in standard issues and so fit themselves mentally to take advantage of it.

In some cases reckless exaggeration of war orders, and of the profits to accrue therefrom, and in other cases absolutely unfounded reports of the placing of war contracts are the unstable levers which have lifted some of the so-called "war stocks" into prominence. Sent soaring in this way, it is only a matter of a little time when they will come tumbling back to earth again, hurting not a few trusting but foolish investors in their fall.

A. A. Housman & Co.: Today the impulse is to advise caution. Many things seem to be going up too fast. In many directions expansion is taking place at a pace which cannot conservatively be maintained. We feel like saying to our clients: "Let up a bit. This is gambling, you know, and must not be confused with speculation. When an industrial stock that has never paid a dividend can sell higher than Union Pacific stock ever sold, that is rash gambling. Go slow."

But, after all, why should anybody be cautious? The world is in a reckless mood. Money is being printed and injected into circulation at a rate never dreamed of before. Inflation is taking place. Property is being destroyed at an unparalled rate, and property is being produced in other ways at a correspondingly greater rate. The velocity of change is almost incredible. And that creates opportunities for the speculator, the man who will not heed caution, the man who will take big risks for big profits. He is finding himself now. All that we can do is to let him alone.

Investors have no place in these exciting affairs. They had better stay out of them entirely. For the most part they do so.

Odd Lot Review: "You hear a great deal these days about foreign liquidation," said a member of the New York Stock Exchange who probably knows more than any save the members of a few houses which are acting as direct agencies about the ins and outs of the foreign financial situation. "What you don't hear anything of is about foreign re-investment. Yet, you can take my word for it, there is a lot of activity among Europeans in buying American securities.

"Foreign liquidation as a permanent obstacle to a bull market in this country is a great joke. In the first place, a reasonable amount of selling of American securities to Americans is a good influence as a general trade accelerator. In the second place, there are a great many rich Europeans who are transferring money into American stocks and bonds as fast as they can do so without exciting suspicion. Naturally, this process is being carried out quietly, because, from the governmental standpoint, it would probably be considered unpatriotic."

Posner & Co.: There never was a better time nor a greater opportunity than now to make good, safe and big-paying investmensts and to speculate successfully. There is a good collection of securities to choose from that are bound to have a boom and improve in market value. Some are not paying dividends yet, while others are paying 5, 6, and 7 per cent. or more, and are still selling comparatively low.

* * *

A German View of British Loan.

GUSTAV SCHWEPPENDICK, editor of the New York *Deutches Journal,* writes to the *American* from Berlin, giving the German view of the tremendous conversion privileges which accompanied the recent British loan. He expects, not unnaturally, a "smash" in values at London which will be reflected seriously in New York:

The British Treasury's scheme, therefore, will throw a tremendous mass of old stocks upon the market which otherwise would have quietly remained in the hands of investors. No doubt the supply will soon be limited by low prices making the combined operation unprofitable. But, then, prices for consols, first loan and annuities will be many points below today's quotations.

Colonial loans, municipal loans, railroad loans, industrial debentures, foreign state and private securities must suffer so much more. Billions will be lost on these papers, no doubt, exceeding many times the total amount the treasury will be able to raise in new money, even under conditions most favorable.

Most assuredly the reaction will be felt in

THE ALLIES CAN'T FIND THE KEY.
—*Columbus Dispatch.*

America, for while England holds so many American values the smash in London will result in increased offers at New York.

* * *

Severe Economies Throughout Europe.

FRANCE is now following the example of Germany and appealing to its people on the ground of patriotism to bring out their hoarded gold for the national defense. A hundred million dollars or more has been obtained in this way. In the meantime the English papers are urging the people to economize in every possible way:

The Economist: We have compelled the Germans to save, and so are helping them in the matter of financial staying power. It is high time that we did the same for ourselves, retaining the advantage that our command of the seas gives us in buying material for war, but not allowing our citizens to outrun the constable collectively by spending as usual on articles of ordinary consumption. If we have to go to America and Argentina for food and rifles for our army and those of our allies, we must make our civilians eat less, smoke less, drink less and wear fewer new clothes.

The Statist: The day is now rapidly approaching when it will be no longer possible for the nation to meet its vast war expenditures out of either its existing savings or out of its fund of floating capital, and when it will be essential for everyone to sacrifice the luxuries, comforts, and even the necessaries, in order to meet the prodigious sums needed to carry on the war.

* * *

Banking Opinion Generally Optimistic.

THE country's bankers in general take a cheerful view of business prospects, though Boston calls attention to the fact that railroad gross earnings and bank clearing are not all that might be desired:

First National of Boston: With splendid crops marketed at high prices, with bountiful yields in prospect and with a plentiful supply of money, consumers still purchase scantily, affecting adversely retail trade and reacting sharply on manufacturing and transportation. The controlling and continuing factor in this anomaly seems to be the realization of our unpreparedness for war and appreciation of the fact that, with our present strained diplomatic relations, the further loss of an American life, at other times perhaps explainable, might be sufficient to draw us into the world-war. Naturally enough, business initiative is repressed, and it is a matter for congratulation that trade activity is holding its own and not experiencing the usual summer lull.

NOODLES AND WAR MUNITIONS.
—*Hy. Mayer in Puck.*

It has been said that a high degree of activity in iron and steel would have to exist before real prosperity could be realized. That condition has arrived, but neither railroad gross earnings nor bank clearings record gains of importance, and general business fails to respond. The Steel Corporation reported an increase for June in unfilled tonnage of 413,598,—well above the most sanguine estimates, and its new business has steadily increased from 20,000 tons daily in January to 60,000 tons in July. Steel mills generally are operating now at close to capacity; orders are in excess of production; prompt deliveries are promised grudgingly; prices are advancing; and pig iron production, with 221 stacks, is at its highest point since October, 1913.

Of course, war and affiliated orders are mainly responsible for this favorable situation, but domestic demand, including railroad buying, is on the increase. Nevertheless bank clearings show for June only about 1 per cent. increase over June of last year. Not only that, but stock exchange transactions this year help out this meagre exhibit. In June, 1915, about 11,000,000 shares were dealt in on the New York Exchange as compared with about 4,000,000 for the same period last year.

Northwestern National of Minneapolis: The spending power of the Northwest has been strong since last harvest, due largely to the high prices for grain. The tendency to spend, however, has been largely controlled on account of the uncertain condition of international affairs, which has fostered a feeling of caution. Although this country is not directly involved in the European war, its indirect effects have been evident in almost every line of industry. Although today there is no more definite certainty of what the future may hold than there was at the beginning of the war, the public mind has, to a large extent, accommodated itself to the idea of doing business in spite of unsettled conditions. To this cause may be attributed the renewed activity in the investment market. People whose dividends

had been coming in were at first afraid to reinvest them, but in many cases a surplus of capital has accrued to individuals, and the certainty of loss of interest in case their money remains idle has begun to outweigh the uncertainties incident to investment, and people are very generally taking advantage of the opportunity to place their surplus funds in lines as far as possible conservative.

H. S. McKee, Cashier of the National Bank of California, Los Angeles: It is believed that throughout most of the United States the period of declining business has run its course and that recovery is now well under way. Its progress is somewhat retarded, not by the war, for business is becoming adjusted to that and is even stimulated by it, but rather by the fear that out of the war may arise some new uncertainties not yet foreseen. There is no other barrier to progress and but for the caution born of this latter fear, there would be perfect safety in predicting that the beginning of 1916 will find business in a highly active condition, and resting upon a foundation more firm and secure, and with prospects more promising than the past has ever known. It seems more than probable that this will be the situation in any event.

* * *

Comatose Real Estate Beginning to Stir?

FOR a long time the principal question with real estate men in the vicinity of New York has been whether that business was really dead or merely comatose. Their optimism—for a real estate man could never be other than an optimist—has been of the pumped-up character that does not inspire confidence. Among the other opinions on business conditions given below, that of Chairman Black is of interest because it has definite facts behind it:

H. S. Black, Chairman U. S. Realty Co.: For a year or more conditions in building and real estate have been bad, but recently there has been an improvement and I believe we have turned the corner.

Within the last three weeks we have booked more business in new building than in the preceding six or seven months. Real estate is also showing signs of recovery.

Kenneth K. McLaren, President of the Corporation Trust Co.: All things considered, the first six months of 1915 have been exceptionally good with us in the way of new incorporations. We have filed an unusually long list of new concerns under the laws of New York, which is the most popular State with promoters. This applies with special force to companies with an authorized capital of anywhere from $25,000 to $1,000,000.

It looks to me as though it will not be

OLIVER TWIST UP TO DATE.
—*Columbus Dispatch.*

many months before we will have a strong reminder of the activity which promoters witnessed some years ago. In the opinion of some of the best posted business men we will witness a boom such as has not yet been witnessed following the culmination of the war.

Merchants and manufacturers of the country have been sailing so close to shore in the matter of entering into new commitments for several years that all that is necessary to start the wheels of prosperity again in motion, from an all around standpoint, is a return to a normal state of affairs in Europe. Then will follow larger purchases by retailers whose buying operations have been of a hand-to-mouth character.

S. Davies Warfield, Chairman Seaboard Air Line: I have never seen the crops in the Southern country look better. The corn crop of Georgia, I am informed, will be the largest in the State's history. Cotton, tobacco, corn, watermelons, sweet potatoes and general grain and vegetable crops are in splendid condition, and the diversification of crops so long discussed has been realized.

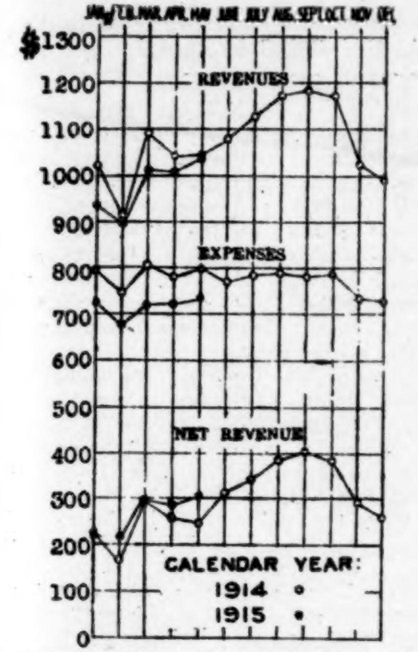
I had an exceptional opportunity of talking with farmers, planters, bankers and cotton mill men and others, and the general verdict was that things in the South are looking better than for some time past.

Speaking for myself, I feel that we are going to see an increased movement of freight by the railroads of the South and better passenger hauls, which will begin when the harvesting of the new crops has been advanced.

* * *

R. R. Net Earnings Show Big Gain.

MANY investors believe that railroad stocks should, and before long will, respond more emphatically to the



MONTHLY RETURNS, ALL RAILROADS IN U. S.

growth of net earnings. This growth has really been astonishing, as compared with last year. *Bradstreet's* gives the following figures:

The statistical facts for the month of May, the latest month for which complete data are available, indicate that gross earnings fell off 1.1 per cent. from that month in 1914, while net receipts advanced 23.9 per cent. In other words, gross revenue aggregated $241,872,184, against $244,613,231 in May of last year, while operating expenses declined 8.2 per cent. and net earnings amounted to $67,049,099, as compared with $54,096,036 for May, 1914. The increase of 1.1 per cent. in gross receipts contrasts with a drop of 9.9 per cent. in May of last year, but in the preceding year, 1913, this item advanced 12.8 per cent. over the corresponding time in 1912. The rise of 23.9 per cent. in net earnings follows a loss of 17.2 per cent. in May of 1914, which in turn compares with a gain of 9.4 per cent. for the like time in 1912. By excluding the figures of Canadian roads, the loss in gross receipts for roads in the United States is reduced to a very small ratio while the gain in net revenues, instead of being 23.9 per cent., is approximately 27 per cent.

On the other hand, comparisons are now being made with a very small volume of business a year ago, and again, the improvement in the net is entirely due to cutting down expenses. Thus the *Times* says:

On closer examination it appears that the "profits" are all in the reduction of expenses, which were $140,000,000 last year and $130,000,000 this year. The profits of the railways are all made by the knife, by cutting expenses. The limit to the increase of the railways' profits by reduction of expenses is reached when the knife reaches a vital point. One-eighth of the railway mileage is in receivership and their collective troubles are transferred to their shareholders individually. In more than one case they have the alternative of paying asessments of $50 a share or admitting a total loss. The difficulties of the railways are felt far beyond their shareholders.

* * *

"First Principles" on Railway Rates.

PRESIDENT UNDERWOOD of the Erie recently created commotion by recommending that passenger rates be reduced to one cent a mile and freight rates increased, say, 20 per cent. He presents his point of view in a forcible and interesting manner:

The whole trouble with this country is that the railroads have stopped. When the railroads slow up the country slows up. It is just like a funeral when the hearse breaks down. Nobody can pass the hearse and the whole procession is held up.

I am not prepared to say whether freight rates should be increased 20% or 22% or 18%, but an increase is the only solution of the railroad situation and incidently 99% of the people would not feel it.

It is just as if I said to every person in the United States: Give me one cent each by tomorroy noon. Perhaps one family could not, because of special circumstances, pay its six or seven cents, but the head of the more prosperous family next door would be glad to send along an additional dime and tell me to keep the change. But I would have a million dollars if everybody paid up. The secret of the whole thing is to arrange it so that it will not hurt anybody and then no one will notice it.

Railroad rates are not an issue and never should be. The Interstate Commerce Commission could make itself the most popular body in the country, if it only knew it, by giving the railroads a fair increase in rates. It would start the wheels of progress going and everybody would be contented.

We have got to get back to first principles. Reason and railroad rates parted company years ago. Let's get back to the cross road again and start out right.

Money and Exchange

Renewed Fall in Exchange—Banks Hoarding Gold Abroad

MONEY rates show no change worthy of mention. Both call rates and commercial paper are a shade easier, but purely as a result of seasonal influences—summer being always a period of relatively easy rates. There is no reason to expect any great variation from current rates for some time to come. Since January 1 call money has ranged within ¼ of 2 per cent. each way and commercial paper within ¼ of 3¾. The next substantial move in money rates will have to be upward, but there is no indication of it yet. On the contrary, the New York clearing house institutions have about $180,000,000 surplus reserve.

Foreign exchange has recently declined again to the low level touched at the close of June, 4.75¾. The much-talked-of French and British loans or credits to be arranged for here have so far failed to take tangible form, and this is of course the immediate reason for the decline in the rate. The evacuation of Warsaw has also had a sentimental influence, as indicating the great difficulties of the Allies and the probability of their continued large demands on us for all sorts of munitions and supplies.

In the mean time orders for war materials of every kind continue to pile up here. The question what will happen to the exchange rate when these goods begin to go forward and our crops also start to move abroad, is certainly an interesting one. Whether England and France can protect the rate, are questions that only time can answer.

For the fiscal year ended June 30, our excess of exports over imports was $1,094,000,000. Everything indicates that it must be still larger for the coming year—unless an unexpected peace should be declared, and the chance of that seems now very small. To meet these and other big war expenditures the Allies are making every effort to draw as much gold as possible into the central reservoirs. England has now borrowed about $6,000,000,000, including treasury bills, but a deficit of at least another $1,000,000,000 is expected when the British fiscal year ends in March next. Moreover, bankers' deposits in the United Kingdom have increased over $750,000,000, which for the most part represents inflation. But during the past year English stocks of gold have increased about $250,000,000, and every effort is being made to keep as much gold as possible in the banks.

France and Germany are doing the same thing. Additions to the Reichsbank's gold holdings have been gradually falling off, however, until the increase for two months ending June 30 was only 19,000,000 marks. Probably the greater part of the gold available has been called in. The French bank is still gaining.

All European banks are thus hoarding as much gold as possible, while the Governments are still using their credit freely. Their statesmen expect war to the point of complete exhaustion of one or both sides, and they realize that the last hundred million of gold may turn the tide. It may safely be predicted that under such conditions Europe will not send us gold in any large quantities until every other resource is exhausted; but even thus it would seem that the gold must come forward, since there are two things now more important to Europe than even gold—namely, food and war supplies.

Under these circumstances we may expect to see dearer money abroad before long, but it will be wholly the result of foreign conditions and will probably have comparatively little effect on our money rates here. Direct borrowing in New York is likely, but it would have to be on an enormous scale to affect our rates seriously—a much larger scale, in fact, than any on which our bankers would be willing to lend. Everything possible will be done abroad to encourage the sale of American securities to New York; nevertheless, holders will naturally cling to our securities as the best they have.

BOND DEPARTMENT

Bond Prices

and

The Bull Move

A Study of Past and Present, Bearing Out a Theory.

By THOS. L. SEXSMITH

ONE of the earliest theories connected with the movement of security prices, which the writer recalls, was to the effect that bond prices always preceded stocks in any move of far-reaching importance. Authoritative writers on stock market topics have many times elaborated on this theory, and I have seen it so often expounded in cold type that it has possibly attained in my mind, at least, the importance of sub-conscious belief.

Such research as I have made into records of past market action has brought to light little to shake my belief. I have been unable to find a single instance of a definite reversal of the major or long trend, which was not led by the bond division and later followed by stocks. It is true that when a change in the direction of the long trend of bond prices is accomplished, the evidence of change is not so easily detected as in the case of a like change in stocks. Bonds are comparatively sluggish in price movement, and especially so when considered in the aggregate. Yet it is quite as possible to mark a change in the one price trend as the other, the main difference, as far as most students are concerned, and the great difficulty, is a lack of such specialized knowledge of the bond market itself as may be obtained only from the closest study and association.

Before the "audacious war" upset the course of rational study and thought among those who give serious consideration to the phenomena of the rise and fall of security prices, and the practical causes behind them, the one feature which held the closest attention was the position of the long term investor.

The thought was centered around the question of whether or not he would soon return, with the rapid piling up of idle money, to the market and enable the railroads and other large corporations to free themselves from the continuously harassing strain of the huge load of short term notes and other quick maturities which had of necessity been piled upon their bending backs during the past ten years of declining bond prices.

It was felt that a sign of betterment in the bond market would signal a coming change elsewhere throughout the business world, developing, in the natural course of events, a new period of progress and prosperity.

But let us see what happened after the war had been declared, and the markets, after that long and dreary "dry spell," at last reopened. We had read so much about war and the vast numbers of men engaged therein, and the fabulous sums of gold required to finance it, and also of the huge material benefits that were sure to accrue to us on account of our position of secure aloofness, that our normal perspective must have become badly warped. Then along came the first news of the gigantic "war orders," and the millions of profits that were to be made, so when the recent lively and spectacular "spring rise" had begun to get fairly under way many lost their bearings entirely.

"New conditions make new rules nec-

essary," with some truth we argued among ourselves, and if anybody, mindful of past happenings, ventured a word of warning, he was silenced with looks of mingled scorn and pity.

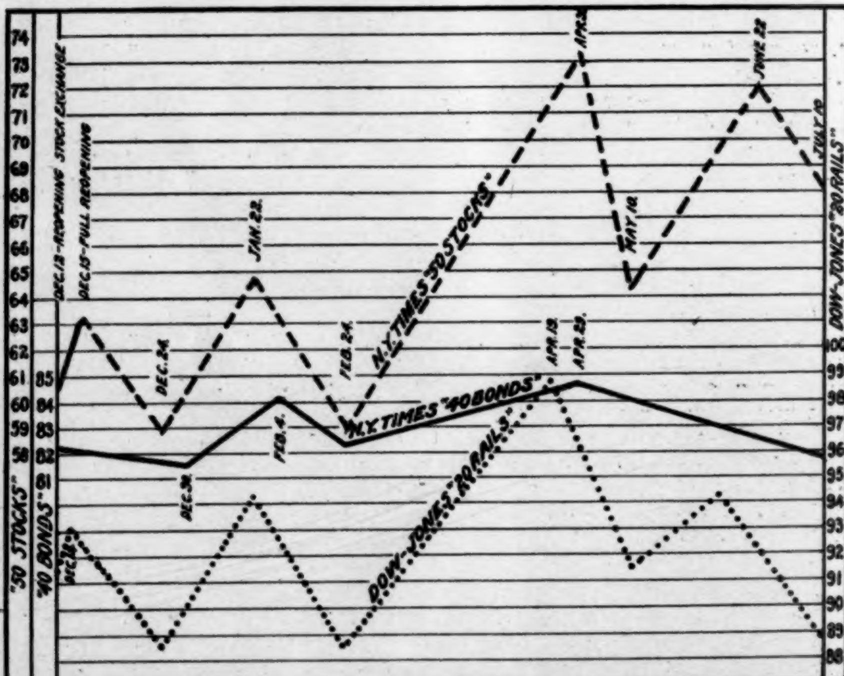
When embarking on unchartered seas, skippers should be mindful of hidden shoals. No one is quite so certain to be wrong as the fellow who is cock-sure he is right.

Applying study and thought to the action of the stock market, we discover from time to time certain recurring characteristics of movement about which we precipitate one theory after another, until, aftet a while, we are able to define certain rules which we are justified in relying on to a certain extent for guidance in our market operations. A rule to the operator is simply a guide, arising out of a previously determined percentage of chance in favor of or against a certain coming move. It is the expectancy of like action from similar cause, but in the case of the vast majority of moves in the market, the elements behind the cause lend themselves too imperfectly to accurate analysis to make possible the projection of a positive prediction. You see there is nothing absolute about a rule, but a principle is the essence of the absolute. It is part of the eternal truth and cannot fail.

The Anteriority of Bond Prices

In the repeated tendency of bond prices to anticipate a change in the long trend of stock prices is there presented evidence of the workings of a well defined principle of natural law? Perhaps so—let us see.

Here is the theory, familiar, no doubt, to many who read this. After a period of declining prices, covering many months and embracing what is known as a major bear market, capital becomes



Graphic showing failure of investment demand to assert itself in rising prices for high-grade bonds.

pretty well frightened because of losses of income return through passed dividends and defaulted interest payments, many disastrous receiverships and the like. Poor business conditions make production unprofitable, and money is gradually taken out of regular business channels and piled up in banks.

After a time, those who have control of this idle money become tired of holding on, and impatient for some return, at least, seek new investment, having foremost in mind the factors of safety of capital and surety of return.

This inquiry for safe investment, the first to present itself, develops a gradually increasing activity in high grade, low interest bearing bonds, which has the natural effect of stiffening prices, since price is a measure of supply and demand. As the price of the best class of bonds responds to an improved demand, investors turn to bonds of a less secure type and higher yield, and thus the natural trend of demand extends itself until stocks, too, share in the movement toward investment. By the time investors are ready to put their money into stocks for the long pull, it is safe to assume that a real bull market is on in earnest.

Bull markets end, and bear markets are, in turn, anticipated by the gradual selling of high grade investment bonds to obtain funds for further developing flourishing business enterprises, which have been brought into prosperity on the wave of optimism and excellent business following in the wake of the bull market. Money is also needed for the promotion of the many new corporations which are organized at such times. This selling movement involves, one by one, the various classes of investments, turning them back into the market until, in the end, the inevitable crash comes, after which follows another period of readjustment.

A seemingly natural sequence of action, such as that explained above, does not happen as a matter of chance. And in that relentless application of an inexorable force, which may not be denied until it has carried out a clearly defined intent to the fullness of completion, one may well believe is a manifestation of the harmonious workings of a principle rather than the approximations of a mere rule. A principle, being truth, must work always. When failure is found, then we may know that we have confused theory with principle; until then we must keep our faith in that which we believe is principle.

A study of the accompanying graphic, which discloses, through the failure of the line representing a price average of forty bonds (compiled daily by the N. Y. *Times*), to anticipate, or even respond to, the attempts of the two stock averages to develop and maintain a bullish trend, the fact that the investment demand for bonds which has heretofore preceded the inauguration of a sustained major bull trend did not materialize; consequently it was expedient for those interests engaged in engineering the upward swings [shown by the lines of advancing stock prices] to close out at least part of their lines at whatever profits obtainable, and to abandon further bullish plans for the time being. Of course, new plans may be made at any time, and doubtlessly will be, to suit whatever conditions may arise.

Long Period of Distribution

This magazine, in its issue of July 10, accompanying an article by Mr. G. C. Selden, "Why Liquid Capital Is Piling Up," prints a graphic which shows the price movement of a set of bond averages from 1902 until the present date. These averages maintained a definite bearish trend, with only two notable exceptions, for the whole period of thirteen years. Stocks did not enter into the long bearish swing until August, 1906, but as a matter of fact the entire period between the grand top made in September, 1902, and the final top made in August, 1909, was mainly given over to the important business of distributing stocks, both old and newly created. And who will not say that it was a labor well done?

The grand bull swing in stocks, which began in August, 1896, and continued with only minor reactions until September, 1902, lasted about six years, and in point of ground gained is the greatest

bull move in the history of the market. In that marvelous up-swing an average of twelve selected stocks gained one hundred points. That, you will agree, was "going some." But in all the work of the market which followed during the next seven years (up to August, 1909), little was added to that previously attained, and today the market on average is many points below the levels of that epoch marking year, 1902. Since 1909 we have had no great bull markets, only many interloped bullish campaigns, the tops of which have invariably been used for the purpose of distributing stocks taken on the ever-recurring declines.

That the long bear swing in bonds has continued for the past thirteen years, and that of stocks for at least six years, lends the hope that a change in the direction of price trend in both classes of securities is close at hand. Many now believe that the trend in stock prices has already turned upward for the long move, dating the turning point from some time during last November, when on the unofficial market of the New Street curb prices began to harden from the low levels then registered. It is certain that the market is now in a strong rally, particularly the industrial or "war order" group, but it is yet to be determined if the major or long trend has changed.

For my own part I should feel decidedly more inclined to follow up advances, with confidence in further progress in the future, if the line of bond price averages would develop more definite indications of an improved position. Until that happens I feel that such advances as may be made, outside of isolated instances, must inevitably be followed by reactions quite too severe for comfort, and, in the end, the loss of all or nearly all of the ground gained. A ship may not cruise far nor safely without ballast, and ***investment demand***, not speculation, is the ***ballast*** of a long voyage over the fair seas of higher prices.

Bond Inquiries

Incomes or Debentures

Could I make more money by buying Hudson & Manhattan Income bonds rather than the new New York Central debentures? —E. T.

The two securities you mention—Hudson & Manhattan Adjustment bonds and New York Central debenture 6's—are of entirely different character. The first is a very speculative bond, the second a business man's investment. The Hudson & Manhattan bond is at a very low price, the other much more costly. The chances of appreciation in the New York Central debenture bonds are not great, because the bonds are selling rather high now. The Hudson & Manhattan bonds will have a very slow movement and are securities from which you should not expect much immediately.

Profits in Convertibles

G. E.—Convertible bonds generally move in sympathy with the stock market. You have only to check prices now with what they stood at a month ago to verify this fact. For instance, Southern Pacific convertible 5's, just before the break, stood around 101½, and are now about 99. You can see from this the fluctuation in standard issues is not great. Of course, different issues fluctuate in different degrees. If you follow the trend you are very apt to make some money in convertible bonds, but of course it will not be nearly as much as you would make by operating successfully in stocks.

American Writing Paper 5s

American Writing Paper 1st 5s are a speculative issue. The company has a hard time earning any substantial margin for the bonds, and is now about to go into reorganization proceedings.

The Missouri Pacific Plans

I am the owner of 1 Cons. 6. Would you advise depositing same?—U. S. A.

It is a very difficult question to answer—that of depositing your Missouri Pacific bonds or not. We are inclined to advise you to do so, because we believe the plan submitted after so many months of consideration by able bankers who have also a large personal interest in the road is possibly the best that can be brought out. Of course, any number of plans could be made, but it is very doubtful whether any could be suggested that would satisfy all parties.

Certain bondholders are "kicking" about the plan, and doubtless they will hold out their securities. But the inevitable is, if this plan or something very much like it does not go through, that the road will default on certain obligations, or possibly not be able to finance itself next year when the notes fall due, and then there will be a receivership in which bondholders might fare worse.

You might, if you choose, hold your bond out a while longer, and keep in close touch with the situation by reading the papers carefully.

Making Money in Convertible Bonds

Chances of Profit in the Active Railroad Issues

By FREDERICK LOWNHAUPT, Author of "Investment Bonds," Etc.

THE GREATEST amount of money to be made nowadays seems to be in the common stocks of the companies doing a tremendous war business —also the greatest losses will probably come out of them. The least amount of profits is to be found in buying the highest grade of bonds—and also the least possibility of ultimate loss.

In between these two extremes are many degrees of risk. Buying stocks means that you face the dangers of great fluctuations both in price and income unless it be an old seasoned and established income producing security. Buying high grade bonds means that your income is safe and your chance for appreciation in price is limited. Buying medium grade bonds means that your income is fairly large, reasonably safe and the chances of appreciation are greater if the securities are well selected. This includes second grade mortgage or debenture bonds.

There is a third class of operation that should appeal to many for the reason that practically everything is in favor of the investor. I mean by this the purchase of convertible bonds. In the buying of these bonds there is in nine cases out of ten a large chance for appreciation, in such a set of conditions as are now presented, namely, a decidedly upward trend to practically all securities.

The convertible bond generally has no mortgage lien. But what does that amount to on such properties as the Norfolk & Western, St. Paul, Atchison, Pennsylvania, Union Pacific, and others, all of which have put out this class of bond. In the olden days, when convertibles were first issued, it was the custom for companies in weak credit to issue this class of bond, the conversion privilege going along as an inducement for large future profits. In these days almost any corporation is likely to issue them, from the very strongest to the very weakest. In fact the stronger companies have an easier time in disposing of these convertibles than the weaker concerns. By issuing convertible bonds the stronger corporation avoids the necessity of covering itself with more mortgages and gives to the holder an opportunity of making money if the conversion privilege is not put too high, nor too far off.

The element of soundness in a convertible bond when it is the obligation of a strong corporation, lies right in this fact. The question of mortgage in companies like the Pennsylvania, Atchison and Union Pacific, for instance, is practically secondary. As a matter of fact where does the holder of the supposedly sound mortgages in Missouri Pacific, Rock Island, Frisco, stand now that these companies must be reorganized and a lot of cash must be secured. The trend of affairs nowadays in reorganization shows that the mortgage must be a very important obligation of the company to protect the bondholder to the full limit that he expected when he bought the bond.

Far better to have a very strong company than a supposedly very strong mortgage. The latter gives a strong legal claim, to be sure, but what does this legal claim count before the exigencies of a case like Missouri Pacific.

There is much to be said for the convertible bond of a good company. In the first place its interest payment is secured. The bond buyer knows exactly what income he will get from his investment. All the appreciation in price is "velvet." The bond buyer can therefore take an investment position from the be-

TABLE I

Approximate Investment Yield on Current Prices.

	Rate of Int.	Due	App. Present Price	Yield %
Atch.	4	1955	99½	4.00
B. & O.	4½	1933	86	5.75
C. & O.	4½	1930	71½	7.50
St. Paul	4½	1932	94½	5.00
St. Paul	5	2014	102	4.90
Erie	4	1953	66	6.40
N. Y. Cent.	6	1935	103	5.75
N. Y. N. H. & H.	3½	1956	70	5.30
N. Y. N. H. & H.	6	1948	108	5.50
Nor. & West.	4	1932	102½	3.75
Nor. & West.	4½	1938	103	4.30
Sou. Pac.	4	1929	80	6.10
Sou. Pac.	5	1934	98	5.15
Union Pac.	4	1927	89	5.20

ginning, leaving it to time and general conditions to work out a profit for him, if they will.

There is a sympathetic motion between the stock of a corporation and its highest and best bond obligation, but the latter does not generally move much, especially if it is an established security, well seasoned. There is more motion imparted to the second grade bonds when the stock moves upward or downward considerably.

Convertibles fall into this category of second grade security, although in truth a number of them are much better than the first mortgage bonds of some corporations.

Just now, bond prices are low and among the various classes of stocks the railroads alone have not had any appreciation. Practically the whole railroad list has stood still for months. This means that the convertible bonds of the railroads also look attractive to those who believe in the fundamental soundness of the whole situation. It is worth while to study the railroad list for this reason. The science of investment for profit is to buy when the security is cheap and when, if the outlook is sound, there is a general disregard of the cheaper issues. I believe this is a time when such a condition exists. With the railroad stocks neglected, their bonds depressed, a poor year just closed, preceded by many more months of poor earnings but with an excellent outlook, whether or not additional rates are granted, it is the psychological time to buy both good railroad stocks and bonds and especially their convertible issues.

These convertible issues will rise in

TABLE II

Bond		Period of Conversion	Face Value Amt. of Bond That Must Be Given For 1 Share	Present Price of Stock
Atch.	4	prior to June, 1918	100	100
B. & O.	4½	prior to Feb., 1923	110	79
C. & O.	4½	prior to Feb., 1920	100	41
C. M. St. P.	4½	after June 1, 1917	100	81
C. M. St. P.	5	after Feb. 1, 1916	100	81
Erie	4	prior to Oct. 1, 1917	60	26
N. Y. Cent.	6	bet. May 1, 1917-1925	105	88
N. Y. N. H. & H.	3½	prior to Jan. 1, 1916	150	62
N. Y. N. H. & H.	6	after Jan., 1923	100	62
Nor. & West.	4	prior to Sept. 1, 1922	100	106
Nor. & West.	4½	prior to Sept. 1, 1923	100	106
Sou. Pac.	4	prior to June 1, 1919	130	87
Sou. Pac.	5	prior to June 1, 1924	100	87
Union Pac.	4	prior to July 1, 1917	175	129

sympathy with the stock whether the conversion privilege is available early or no. And from the standpoint of income and safety there seems to be no more desirable opportunity on the list today than some of these neglected railroad convertible issues. In table I, following, the approximate investment yield is given for a selected list of railroad convertibles. With few exceptions they are exceedingly attractive from an income standpoint. An income of 5.75 per cent. on New York Central 6s, 6.10 per cent. on Southern Pacific 4s, 5 per cent. on St. Paul 5s, and 5.75 per cent. on Baltimore & Ohio bonds is not to be passed lightly, especially in view of the potential powers of enhancement in the stock of all these companies.

are shown in table III, they may not mean as much today for purposes of comparison as might be assumed. They were two abnormally high years for stock prices. I should not venture to predict that stocks will reach such levels for a long time; and yet with the tremendous bullishness of our situation just now such a performance would not be surprising. For purpose of comparison it is better to take 1912 when prices were more moderate and at such a level that may again be expected.

Time has changed the aspect of individual issues, such as New Haven and St. Paul and Chesapeake & Ohio, but they must be considered in a long range study of the situation. After studying the differences in price level of the

TABLE III

High Prices Reached by Stock in Years Shown*

				Dividend Paid			
	1906	1909	1912	1906	1909	1912	Present
Atch.	110	125	111	4½	5½	6	6
B. & O.	125	122	111	5½	6	6	5
C. & O.	65	91	85	1	3	5	..
St. Paul	199	165	117	7	7	5	5
Erie	50	39	39	..	..	..	..
†N. Y. Cent.	..	..	121	..	5	5	5
New Haven	204	174	142	8	8	8	..
Nor. & West.	97	102	119	4½	4½	6	6
Sou. Pac.	97	139	115	2½	6	6	6
Union Pac.	195	219	176	8	10	10	8

*Fractions omitted.
†Now combined with Lake Shore.

That this potential power of enhancement in the stock may be appreciated to its fullest the table II shows the present price of the stock of these various roads, while table III shows the prices touched on previous movements.

There are then two sources of profit to the investor in these convertible bonds; one the enhancement of the principal as the general market rises, and two the possibility of conversion, which means that after the bonds have been exchanged into the stock a further advance in the stock creates more profit.

We are now looking to the pull that the stock will exert to give us our profits and then we are considering what the chances of making money by conversion are. Although the years 1906 and 1909

stocks we should look at each company individually and see what the situation is.

It would be impossible to say that a rising level of railroad bond prices will pull them all up equally or that the stocks will rise equally, but it will be quickly seen just how much may be expected by a brief discussion of the position of each company together with the prospects of enhancements in its stock and the factors of conversion—whether they are worth anything or not.

ATCHISON

With one of the best years in its history and having earned over 9% on its stock after keeping the property in good condition there is every prospect that with the large crops to be moved that this stock will go considerably above par at which figure the change may be made. As Atchi-

son stock goes through par these bonds are rapidly converted. Fundamentally, there is every reason for this stock to sell above the conversion price.

BALTIMORE & OHIO

The conversion price is rather high. It will be a strain to get the stock up to 110 and it would be an extraordinary rise in railroad values that would accomplish this. The chances are that even if B. & O. went back to a 6% dividend basis, which does not seem likely in the near future, it would be doubtful if the conversion privilege would be of great value. The stock must rise 30 points from present levels to make the exchange valuable. It is now paying 5% and not likely to get more for some time. The company is doing exceedingly well in earnings just now but last year it earned very little over the 5%.

CHESAPEAKE & OHIO

The conversion privilege is almost valueless for a long time to come. It will be a very long pull before C. & O. crosses par, the price at which the exchange may be made. The company must put back into the property $17,000,000 in the five years to end 1920, and would have to earn something like 10% on the stock two years from now to pay 5% and still put the obligated amount back into the property. Potentially the stock is getting better all the time, but it will be a long time before this large showing will be made. Only on a 5% to 6% dividend could the stock justly reach par.

CHIC., MIL. & ST. PAUL

Conversion is here of doubtful value. St. Paul did not earn its 5% dividend for the year ended June 30 last and therefore the directors cut it to a 4% basis. A 4% stock is well worth from 75% to 80, but not worth 100, which is the price at which the exchange may be made from the bonds. The dividend will not be put to 5% and never go to 7% unless the earnings and outlook show tremendous strides. It will take an actual or prospective 5% dividend with a great uplift in railroad stocks to get this issue through 100. And since the conversion privilege is so far off it will probably not exercise any great influence for some time.

ERIE

Conversion privilege is much better than it was in 1906, when the stock reached 50 in spite of the fact that no dividends were being paid. The road has been improved and is 100% better fundamentally than it was 9 years ago. But it is yet far from dividends on the common. Among the cheaper railroad stocks Erie common is probably in as strong position as many and it would not be surprising to see it reach the conversion privilege on any large move in the railroad stocks. The road earns its fixed charges easily, takes good care of itself physically and is one of the coming properties. It will be a long pull from 26 to 60 for the common, however.

NEW YORK CENTRAL

Combined with the Lake Shore the earning power of the Central has been improved greatly and it is expected this year, to end Dec. 31 next, will show as much as 7% earned for the stock. It should be able easily to pay the 5% dividend indefinitely. As a 5% stock it should go to par in a big market, but the question of conversion is of no immediate value because the bonds are not convertible for nearly two years. Much will happen in two years. It is too early to buy the bonds for conversion privilege. They should be bought as an investment purely.

NEW HAVEN

This road is "coming back" rapidly. The bonds convertible at par have possibilities in the matter of conversion if one wants to wait several years. A price of par would mean at least 4½% or 5% dividend. It will be a long time before that is paid. The company earned practically nothing for the stock for the year ended June 30. It will take several years to rehabilitate it.

NORFOLK & WESTERN

A magnificent property and always doing better. The bonds are convertible at par but their price practically always equals the stock so the conversion privilege counts for little. Under the conditions now existing the bonds cannot be bought with any idea of making money out of the conversion privilege. If the stock rises the bonds will move sympathetically.

SOUTHERN PACIFIC

Conversion value for the 4s is far off and their price shows it. They are selling abnormally low for so good an investment. The price at which they may be converted, namely 130, is a long way off for the stock. Selling now around 87 it is 43 points under conversion. The company just about earned its 6% dividend for the year ended June 30 last, and may not have very large years for some time. The stock may go through par on a large movement in the railroad issues which would make the privilege of the 5s worth something, but the fact that the dividend at 6% is not altogether sure for any long time ahead keeps the stock down. The 5% bonds may be bought with an eye to conversion, but for the 4s it is a long cry.

UNION PACIFIC

Conversion value for the 4s is not altogether sure. The company is paying 8% dividend, which should make the stock worth much more than 129, its present price, but whether it will get to 175 except under an extraordinary movement in the railroad issues is a question. The conversion privilege is so far away from the standpoint of price that it has no great attraction at the moment. The bonds should be bought ⅘ths as an investment and only ⅕ as a speculation.

Bond Market Topics

Is the Foreign Selling Over?

A STRANGE situation exists in the security markets. To a certain extent we have now an automatic safety valve that works in a way not exactly as ever before. This safety valve that keeps the market down in some degree is the foreign selling that comes along in squalls when the market atmosphere is right. That is to say, when prices rise to a point where there is an attraction in selling on our market, out come great blocks of European held securities.

Over the past two years great amounts of our securities have been liquidated here but in a rather orderly way. Lately we have had heavy drives in our bond market that have unsettled values for quite a few days at a time. It is this situation that acts as a safety valve against prices going too high. Just as soon as prices begin to advance heavily many *seller* contracts are made, that is contracts to deliver the bonds a specified number of days hence.

Of course, a few weeks ago the heavy selling came as a result of the desire of Europeans to be somewhat patriotic and subscribe for their own war loans. They sold our securities in a good market and turned to their own temporarily.

The question that bond men would like to have answered is whether the people abroad are through selling our first class bonds and stocks. If the level of prices does not advance too much it is believed they will think twice before selling out their high grade securities. But if the market has a great uplift we may expect fresh inundations from abroad. Everybody is trying to figure out what will be the aftermath of the war. Those that believe it will mean higher rates for money are inclined to unload their good securities when the price gets up. They want ready money when the time comes. Over against this is the fact that American securities are going to be for some time to come the best to hold. The conditions in this country bid fair to make for high values. Many Europeans know this and some of them are desperately trying to hold on to their American securities.

From the experience of the past few weeks it seems to be accepted by the investment fraternity that if we have a too rapid rise that is likely to attract a great deal of attention a flood of securities will come over. But the more they send the more strongly will we be fortified. All this will tend to keep the market level down for a time, but in the end the prices of these securities will be much higher.

Is There a Basis for a Big Bond Market Later?

SOME pessimists on the bond market are talking lower prices for bonds all around. They are doing this on the theory that money will be high, therefore bonds will be sold, making them cheap and declining.

The facts are that there is not always an exact coincidence between economic theory and market fact. The economic theory is entirely plausible; there are some eminent thinkers in our financial world looking at it in that fashion. But there are some elements that a good many are forgetting.

We are just now in a market where money is extremely easy. Ordinarily this would mean a good bond market with rising prices. It has generally happened so. But as we all know the readiness of Europeans to dump over great blocks of their American securities when the market gets a good rise has a tendency to check this rise. This may last for some time. But there is in this situation something that the majority of people are overlooking.

It is just this. We are accumulating a great mass of our own securities in this country which Europeans are selling. We are also accumulating a great mass of their money. But the securities are going into the institutions while the money is going to the people very largely through the great war order and food product business we are doing. Now the financial institutions are not going to hold these great blocks of bonds indefinitely. They are going to gather them in while cheap and while money is cheaper and some time later they will want to be rid of them. To whom will they sell? To each other—only in a limited degree. Then the bonds must go to the public.

The public have not, it is acknowledged, been in the bond market strongly. The smaller public have been in the stock market but the greater public has stayed out and is accumulating money. This money sooner or later is going to be coaxed into the better class of securities, which are bonds.

This is the market point of view; and it holds a big place in the everyday affairs in the investment world. There is a tremendous lot of bonds in this country that we have taken from abroad which are in hands which do not intend to hold them except temporarily. The change from this situation to a public distribution means only one thing—a big bond market sooner or later.

The wise investor will benefit by purchasing his bonds, *now*, rather than later.

Public Service Bonds

FOR THE ORDINARY INVESTOR, public service corporation bonds, when purchased of a conservative banking firm, offer a most satisfactory form of investment. They are safe, yield a high interest return and if purchased when first offered hold a great possibility of appreciation of market price.

PUBLIC UTILITIES DEPT.

Part Two of a Valuable Series

What the Investor Should Know
About
A Public Utility Company

The Balance Sheet—What It Shows and How to Analyze It

By HENRY JUDSON

BALANCE SHEETS are as important as income accounts in judging the value of stocks and other junior securities. In our issue of July 10 the features of an intelligible income account were briefly described; but neither the income account nor the balance sheet is really enlightening unless both are given. Some companies give the one and not the other, and this is as true of public utility concerns as of others. For a long time the American Sugar Refining Co. published balance sheets but no income account, and it was the general practice to try to guess from the balance sheets what the income of the company probably was. Such guessing may be very interesting mental gymnastics, but it certainly forms no solid basis upon which to handle one's investments.

The necessity for balance sheets lies in the fact that no matter how large a company's income may be, the income quite fails to prove that the given concern is in a sound financial position. If it is loaded up with debts, and has no working capital it is a poor company to invest in, even though its gross and net earnings are ever so large. On the other hand, an income account may sometimes be very discouraging for a year or two at a time, even in the case of a company which is so rich in working capital that a temporary loss of income doesn't matter very much. The definite uses of balance sheets may be seen the most clearly by noticing the individual items which ought to be shown. These in the case of a public utility concern are subject to variations, as appears in the accompanying schedule.

Having these items in view, and also the items contained in the proper income account, one should first examine the question of maintenance, repairs and depreciation. In this connection it should be observed that a surplus after dividends, since it is earnings put back into the property, may properly be regarded as if it were a portion of depreciation charges. The question which is in mind is of course whether the company is spending enough out of earnings to keep its physical plants from deteriorating in actual value. To obtain an answer to this question, one should add up all the items in the income and expense account representing maintenance, repairs and depreciation, and add thereto the surplus after dividends, provided that surplus is really put back into the property; and then proportion the sum to the value of the plants. This value is to be obtained by adding together items A and B.

Physical plants of a public utility company depreciate if unrepaired at the rate of 5 to 7 per cent. per annum. Hence if these plants are not overvalued, it should be found that the sum just referred to is equal to 5 to 7 per cent., and certainly to not less than 4 per cent. Overvaluation in the plants may be detected by comparing gross and net earnings with plant valuations. The plants of natural gas companies do not really cost, if properly valued, more than two

or three times the average yearly gross earnings of the company. With an electric light company the actual worth of the plants is about three or four times the yearly gross income, and so is it with an artificial gas company. With a street railway the plant is actually worth four or five times the yearly gross income.

The necessity of applying such tests lies in the fact that plants are often marked up enough above their actual values so as to offset among the assets the water in the common stock on the liability side of the balance sheet. Very often common stocks at the time of their issue are held by the controlling interests for their future, and are not supposed to represent any present values at all. Hence, something on the asset side has to be overvalued enough to offset the water in the common. Sometimes this overvaluation is to be found in (C) franchises, goodwill, patents, etc., and sometimes in (D) securities owned. The last five items under assets should not be overvalued at all, and never are overvalued by reputable concerns. An exception to this general statement may be made in the case of materials and supplies, which are sometimes put in at their selling prices instead of their cost prices.

As to overvaluation of securities, the principal criterion is comparsion with the "other income" shown in the income account. This item is, or should be, almost wholly direct or indirect income from investments. Now good investments in this country sell generally on a 5 per cent. basis; and therefore if the investment income of a company be multiplied by 20 the product should be the approximate true value of the securities owned. It must of course be considered that some securities may have much intrinsic value although not yet paying dividends, and in such a case this method would somewhat underrate the true value of securities owned.

Cash is always an important item, but the investor must distinguish between that which has been obtained through collections in the ordinary course of business, and that which has been obtained from the authorization and sale of additional bonds or notes. Public utility companies generally are weak in cash, because they have been expanding so rapidly that the extensions and improvements in their plants absorb all their spending money. If a public utility concern has on hand an amount of cash equal to more than 3 per cent. of its yearly gross business, it is not in bad shape. Miscellaneous assets, whether it goes by this or some other title, should be a small item, because all the important items of assets ought to be clearly classified so as to show just what they really are.

As to liabilities, the most important question is that of current debts or liabilities. These are included under items O, P and Q. These current liabilities to be obtained by adding together these four items, cannot be considered by themselves, but must be compared to the current assets. To owe a great deal is no sign of weakness, if bills and accounts receivable and other current assets are large enough. To obtain the total current assets items F, G and H should be added together. Deducting the current liabilities from the current assets, one obtains the net working capital. As is the case with cash, the majority of pub-

What the Balance Sheet Should Show

ASSETS	LIABILITIES
A. Real estate and buildings	J. Common stock
B. Tracks, gas mains and transmission lines	K. Preferred stock
C. Franchises, goodwill, patents, etc.	L. Notes outstanding
D. Securities owned	M. Funded debt
E. Advances to subsidiary companies	N. Due to subsidiaries
F. Materials and supplies	O. Accounts payable
G. Accounts and notes receivable	P. Notes payable
H. Cash on hand	Q. Accrued interest and taxes
I. Miscellaneous assets	R. Reserve funds
	S. Accumulated surplus

lic utility concerns are rather short of working capital, and for the very same reason. Still the net working capital ought to amount to at least 10 per cent. of the gross yearly income, and better to 20 or 30 per cent. A company which has 25 per cent. is very strong.

Advances to subsidiary companies and amounts due to subsidiaries should be separately shown; but this is almost never done. Where it is not done the investor is left in the dark. Especially is this true in the case of the many holding companies who do not own and operate physical plants, but merely own and control subsidiary operating companies. A parent concern may be either richer than it appears because of the large current assets of its subsidiaries, or poorer than it appears because of their large current liabilities; and the latter is more often the case than the former.

It plainly follows that it is hazardous, and almost foolish to invest in the securities of a holding company which does not give to stockholders a consolidated balance sheet showing the entire assets and liabilities of both itself and its subsidiaries, excluding duplications. Where this information is not given no other information can possibly show whether the stocks of the holding company are worth anything or not. They may be worth ever so much, and on the other hand they may be worth absolutely nothing.

Public Utility Inquiries

American Cities

W. W.—Regarding American Cities preferred stock, no great amount of recent information is available. The company is a combination of various Southern Utilities, and is sponsored by some of the most responsible banking interests in New York. The general office of the company is 921 Canal street, New Orleans, La., from which you can doubtless get a copy of the latest reports and such other information as you may desire.

The stock is a fair investment. The records show that it has not always had a great margin of safety, which excludes it from the really conservative class.

Tenn. Ry. Light & Power

O. W.—The trouble with Tennessee Railway Light & Power is in the very small amount left over after paying all charges. For the year 1914 net earnings were $1,597,231 while interest, rentals and other charges were $1,309,302, leaving only $287,929 most all of which had to go for other more needy requirements of the company than paying dividends. As there is outstanding $10,250,000 six per cent. cumulative preferred and $20,000,000 common stock, you can plainly see the reason for the decline in your stock.

From these figures the outlook is certainly not encouraging. It is said, however, that the poor condition of the company's earnings is temporary, and that with the restoration of normal conditions, the property will "come back" substantially. It would seem to be the part of wisdom, however, to get rid of a part of the stocks at least, and attempt to recoup in some others more active and better known. Certainly at the present time, the speculative character of these stocks makes them little better than some such issues on the Stock Exchange list, like the preferred stocks of the Erie R. R., American Locomotive common, and Central Leather common.

Standard Gas & Electric

H. C.—Your Standard Gas & Electric will probably be very slow, as are the majority of these utility issues. Under the present outlook for stocks in general, we see no serious objection to selling out and attempting to recoup yourself in other securities, if you wish to do that.

If you wish to take up stock at about the price you paid for this, you might go into American Locomotive common, or American Beet Sugar common in either of which there is considerable action, and in both of which there is a fundamental situation that warrants higher prices. They are, of course, non-dividend paying common stocks, and not investment issues as that term is usually understood.

Hudson & Manhattan Bonds

A. H.—All Hudson & Manhattan Ry. bonds, with the exception of the income bonds, are semi-investment securities—that is, they cannot be classed as strictly conservative. They are good, however, and their interest is reasonably well assured. The company is constantly doing better, so that their margin of safety is increasing. They are what is known as a business man's investment.

Business and Prospects of Company

The Philadelphia Company

Steel Report a Bullish Factor—Asset Value of Stock

By WILLIAM KALLMAN

THE PHILADELPHIA COMPANY is by accident a public utility concern. Its original business was the supplying of natural gas for light and fuel to Pittsburgh and vicinity, including Allegheny City and suburbs. As far back as 1899 its sales of fuel reached 14,625,000,000 cubic feet, and it had more than 40,000 customers for natural gas. It controlled 101,341 acres of gas fields, 1,000 miles of pipes and 327 gas wells.

In its early years the company was able to cover operating expenses with a very small proportion of gross earnings, but of course this was probably due in part to the neglect of maintenance and depreciation—so that the low operating ratio was not entirely genuine. In 1888 out of gross earnings of $1,901,703 the company made net earnings of $1,014,642. But this happy state of affairs did not last long. In 1892 the net was only $788,994 out of gross of $3,024,864, and in 1899 the net was $700,083 out of a gross of $2,113,013. Now the company makes net earnings of about $4,000,000 annually, while its gross sales of gas and oil, of which oil forms a very small proportion, are about $7,500,000. The chief significance of these old figures is that they indicate that ever since 1891 or thereabouts operating expenses have fully covered maintenance and repairs, so that net earnings may be regarded as perfectly genuine.

At the present time in addition to its natural gas business the company has three other branches. These are the artificial gas business, the electric lighting branch and the street railway business. All of these were acquired in the process of building up a complete public utility concern. It was to the interest of the company to go into the artificial gas business by way of acquiring an additional distributing system, and also regulating competition; and electric light was another natural field since such light competes with gas.

The subsidiary which conducts the artificial gas branch of the business is the Consolidated Gas Company of Pittsburgh. It owns franchises giving it exclusive rights in Pittsburgh proper, and besides this it has other valuable franchises. It is not a money maker, partly because artificial gas is so dear as to be a poor competitor for natural gas. In 1915 it failed to earn its operating expenses. The Philadelphia Company controls it by stock ownership, and advances the interest on its $5,000,000 bonds, even though it is under no legal obligation to do so. The parent concern also guarantees 4 per cent. dividends on the preferred stock of this subsidiary.

The electric lighting branch of the business is carried on by the Duquesne Light Company. This is a money maker, and in 1915, the year ended March 31, it earned $1,769,104 over and above fixed charges. It has outstanding four small bond issues, all of which are first class investments. The company itself was incorporated in August, 1903, under a perpetual franchise and was a very small concern. So recently as 1910 its capitalization was only $1,500,000, of which the capital stock represented one-third.

In 1912, however, this company, in pursuance of a plan of the Philadelphia Company, absorbed a number of other light, heating and power concerns, and greatly increased its capitalization. It then took over all the electric lighting and power properties of the Philadelphia Company; and the latter owns the entire $20,884,200 stock of the Duquesne Light Company. The increase

in capitalization of this subsidiary was largely a paper transaction, and did not represent any corresponding increase in its real assets.

The street railway branch of the business is represented by the Pittsburgh Railways Company. This subsidiary controls practically all the street railway lines in and about Pittsburgh either through stock ownership or else by lease. It owns outright the entire capital stocks of 29 small street railways. The Philadelphia Company has no very close operating connection with the Pittsburgh Railways Company, and is principally an investor in its securities. In brief the parent concern is primarily a producer and seller of natural gas, and has gone into the artificial gas and electric fields partly to protect its natural gas business, and into the street railway business largely as an investor.

Now, a little examination clearly shows that this is more of an industrial than a public utility company, so far as the nature of its business is concerned. The two are quite distinct because the feature of a genuine public utility is the stability of its earnings, whereas that of an industrial is the wide fluctuations of its earnings. This company has always shown the wide fluctuations. In 1909 its gross sales were only $4,908,764 against $5,877,212 the previous year, whereas a public utility concern seldom or never suffers a gross loss of more than 10 per cent. From 1892 to 1896 the gross of this company fell from $3,024,864 to $1,311,671. The earnings on the common jumped from 7.4 per cent. in 1908 to 11.3 in 1910, and then fell back in 1911 to 8 per cent.

This industrial rather than public utility character is important, because stockholders would greatly deceive themselves if they imagined that their stocks possessed the stability which belong to first-class public utility securities. We shall find also that it is important in another way; for in general the physical assets of a public utility concern are larger in proportion to the gross market value of its securities than in the case of an industrial concern. This generalization applies with full force to the Philadelphia Company; for the value of its stocks rests largely upon their earning power rather than upon physical or other assets. In order to arrive at some estimate of the asset value of the stocks, let us notice first the income of the company from its investments.

Income of Company from Investments.

Year	Investment Securities	Other Income	Per Cent.
1906	$43,407,665	$1,859,522	4.29
1907	44,030,370	1,842,773	4.19
1908	44,164,530	2,001,061	4.54
1909	45,112,929	2,111,995	4.68
1910	45,186,077	2,352,004	5.20
1911	46,388,051	2,505,775	5.40
1912	46,685,006	2,768,831	5.93
1913	69,683,994	2,354,651	3.38
1914	70,833,010	2,154,532	3.04
1915	63,321,345	2,312,526	3.65

These investments represent the ownership of the Philadelphia Company in the artificial gas, electric lighting and street railway properties referred to above. The other income here tabulated does not consist entirely of interest and dividends on these investments, but it does consist largely of such income. The striking feature of the exhibit is that in 1913 the investments of the company suddenly increased by $23,000,000, and its income thereon suddenly fell from 5.93 per cent. to 3.38.

Both changes were practically nothing but matters of bookkeeping. The big increase in the investments held was due principally to the great expansion referred to above in the cap-

italization of the Duquesne Light Company. Just what the object was in overcapitalizing this subsidiary so heavily cannot be stated; but it might well have been for the purpose of fortifying the company against political attack. Legislators are much influenced by par values, and the company which is earning only 4 per cent. on a nominal capitalization of $70,000,000 is much less liable to attack than if it were earning 8 per cent. on a capitalization of $35,000,000, even though in both cases the actual investment in the property might be exactly the same. Hence this capitalizing process may very likely have been wise management. As a result of it the assets were suddenly written up in 1913 from $77,-388,511 to $93,059,495.

In 1915 the management made other changes in its balance sheet which, whether intentionally or not, might also tend to protect the company against political interference. This was the marking up of the "property and plant" from $11,878,901 to $24,-402,318. This marking up was explained as representing expenditures for additions and improvements from 1886 to 1914 which had not been capitalized. It would require very convincing evidence, however, to lead one to believe that there were any uncapitalized values there. The American way of doing things is to capitalize at once all the values the property possesses, and all that it is expected to acquire within the next five or ten years; and there is nothing here to prove any exception to this rule.

Curiously enough, one would arrive at practically the same valuation for the common stock of the Philadelphia Company by any one of several methods of estimating. First, we may figure it from the balance sheets. Taking the 1913 figure, $11,878,901, as the valuation of the physical plants, there should be added in all the other assets which are not offset by current liabilities. These liabilities estimated from the balance sheet seem to be $2,986,-589 as compared with current assets of $5,295,345, thus leaving net current assets of $2,308,756.

Adding these net current assets to the 1913 value of the physical plants, and adding in also $1,002,025 of other assets, probably representing accumulated surplus, we have all the items except the securities owned. These, of course, cannot be put in at their book value since the latter is clearly altogether too high. Their real value may be estimated by capitalizing the "other income" on a 5 per cent. basis, which means multiplying it by 20 to obtain the probable real value of these securities. By this method the securities are valued at about $46,250,520. Now adding all these items together the total assets of the company of all kinds figure out $61,440,202, or roughly one might say $61,500,000.

By way of checking up this estimate let us take an entirely different method, namely, that of valuing the natural gas business independently of the balance sheets, and then adding in the securities held to obtain the total value of the entire system. This may be done by observing the general average ratio of the assets of natural gas companies to the value of their yearly output. In 1902 all such companies in the United States produced $29,550,890 worth of natural gas, while the actual investment in the properties themselves was in the neighborhood of $65,-700,000. In other words the assets were equivalent to about 22 times the yearly output. In its early history the Philadelphia Company showed a similar ratio.

Multiplying the $7,500,000 average yearly output of the company, of gas and oil, by 2.2, the actual assets of this branch of the business are estimated at $16,500,000. These assets include both physical plants and net current assets. Adding to this the above valuation of the securities held, we have $62,750,000 as the estimate upon this basis, and this compares with the above $61,500,000 upon the basis of the balance sheets. All that one has to do is to deduct the par values of the bonds and preferred stocks—the former being $37,191,943 and the latter $8,204,-000—and the remainder represents the asset value of the common. This re-

mainder is somewhere between $16,-044,300 and $17,354,100, while the par value of the common is $39,043,000.

Thus the asset value of the common stock may be estimated at some figure between 38 and 41, quoting on the New York basis of percentages. On the Philadelphia basis these figures should be cut in two. This does not mean that the stock is not a good industrial investment; for an industrial common stock which has behind it assets equivalent to more than half of its selling price is exceptionally good. With the recovery in the industrial activity of the Pittsburgh district this stock should be materially helped because the natural gas is sold largely for industrial purposes.

Nothing could be more bullish on the stocks of this company than the quarterly report just issued by the Steel Corporation. That report demonstrates the existence of a great revival in the industrial business of Pittsburgh and environs, and this revival is bound to increase the natural gas sales of this company by a large amount. Probably the increase will total two or three billion feet per annum. The stocks, owing to their quasi-industrial character, should respond as do other industrial stocks to the increase in their earnings. Those who buy the stocks of the Philadelphia Company at current prices surely have excellent prospects for the coming year.

Notes on Public Utilities

American Power & Lt.—SUBSIDIARIES with the exception of those in the Northwest doing well. General depression in the Northwest affecting earnings there. Consolidated earnings of all properties for the year ended May 31, 1915 showed a gain of $660,605 or 10% in gross, with an increase in operating expenses of $274,423, while net earnings were $3,337,330, an increase of $386,182 or 13% over the preceding year.

Amer. Tel. & Tel.—GROSS earnings for five months ended May 31 were $96,769,058, an increase over the corresponding period of 1914 of $4,250,000. Net was $26,736,681, an increase of $1,800,000 over 1914.

Boston Elev.—EARNINGS available for stock for the year ended June 30 last expected to show just about 5½% the amount that was paid during that year.

Brooklyn Rap. Tran.—GROSS for year ended June 30 showed no gain over last year. Co. earned about 7.39% on stock against 7.13% on it last lear. Last year the first in which gross failed to show an increase.

Detroit Edison.—PROGRESS being made in readjusting finances in transferring to itself in fee the properties which it now controls through stock ownership.

Kings County Elec.—SURPLUS available for divs. in the six months ended June 30 was $726,525, an increase of slightly more than 11%. This represented 5.4% on the capital stock. Expected that full div. requirements for the year will be earned with possibly 3% over.

Massachusetts Gas.—NET earnings for fiscal year ended June 30 were $2,676,573, compared with $2,524,043 in previous year. Large profits expected to be derived from interest in New England Mfg. Co. which makes chemicals.

Northern States Power. — SUBSIDIARIES continue to show large gains in earnings and for the first 6 mos. there was a gain of 16% in gross, of 23% in net, and of 95% in the balance after fixed charges. For the 1st 6 mos. in 1915 indications are that gains will be larger than in 1914.

Pacific Gas & Elec.—EARNINGS for the seventeen months ended May 31 last increased $1,722,990 in gross, while net increased $1,-934,449. Expected gross for 1915 will be about $18,500,000, an increase of $1,588,000 over 1914.

Phila. Rap. Trans.—ANNUAL report for year ended June 30 shows net of $9,966,172 as compared with $9,956,567 last year. Surplus was $221,704 in 1915 and $310,000 in 1914.

Third Ave.—DIVIDEND matter will probably not be decided until the full Board of Directors meets in September when the report for the year ended June 30 will be issued. Co. earned 4.19% last year compared with 3.77% for previous year.

Twin City Rapid Trans.—EARNINGS have been steadily going down for months and for May made the worst showing for a long time losing over $45,000 net. In June gross fell off nearly $25,000. Net for June not yet compiled. Jitneys responsible.

Western Power. — BUSINESS being helped by the Panama Fair, June gross business increasing about 9%. For six mos. gross earnings were $1,399,003, a gain $89,964, or about 7%. For 12 mos. ended June gross was $2,770,963, a gain of 3.5%.

RAILWAYS & INDUSTRIALS

The Market Outlook

The War Speculation—Business Conditions Peculiar—Prospects for Stocks

IT would appear that the most unreasonable and extravagant part of the war stock speculation, at least, has run its course and that quieter and more logical markets are likely to be the order of the day for a time. The more conservative interests of the Street have seen the necessity of checking the riotous rise of the "war brides."

The whole incident of this war speculation has been most extraordinary and will form an interesting subject for study when time enough has elapsed so that it can be viewed impartially and in perspective. None would deny that the stocks of those companies which have benefited most by meeting the urgent necessities of desperate Europe, were entitled to important advances, or that they are now entitled to sell at relatively high figures. But advances have in many instances been carried beyond reason, and pool operations have resulted in extreme activity in some stocks where the prospective war profits are uncertain, if not almost entirely imaginary.

It is not a criticism of the advance to call it "psychological," for all speculation is to a very large extent psychological. The immediate factor in price-making is always the mind of man. Earnings, money rates, business and political conditions are the underlying factors, but every order to buy or sell results from the mental processes of some individual. The important question is as to the nature of these mental processes on the part of the majority of buyers and sellers—whether they are sane and founded upon facts, or ill-regulated and based upon greed for sudden profits. In some recent cases they have apparently been the latter.

* * *

AS nearly as can be estimated, contracts for shells placed in this country since the middle of June aggregate between $500,000,000 and $600,000,000. The steel mills are believed to have sold, within the last four or five weeks, $20,000,000 worth of steel rounds to the shell manufacturers in this country, and about $21,000,000 of rounds and billets have been sent abroad for use in ammunition manufacture there. Miscellaneous contracts connected with war manufactures call for about $10,000,000 more steel, in addition to the above.

Many of the contracts for war munitions and chemicals have from one to two years to run, without cancellation clauses. It is evident, therefore, that Europe itself looks for no early end of the conflict. The specifications for these shells are very close, and the inspectors of the foreign governments interested are stationed not only at all the shell factories, but also at the plants of the steel companies which are making rounds for ammunition. Some of the companies which have taken up this work without sufficient experience have had difficulty in meeting the specifications and are behind on their promised deliveries; but the needs of the Allies for ammunition are so pressing that it is not likely that any war supplies will be refused because manufacturers are late in delivering them.

While the profits on these immense orders cannot be calculated in advance, it is certain that in many cases they will be large. For example, steel rounds for shell manufacture were sold in some instances early this year as low as 1½ cents a pound; but in the last few weeks the price has risen rapidly to 2½ cents, 3 cents and even 3½ cents a pound. If the steel companies are thus able to get prices that yield an excellent profit, it may be counted as certain that the shell manufacturers themselves are getting a still larger profit, since it is upon them that the big demand directly converges.

THERE is also an increasing domestic demand for steel. Steel pipe, for example, the consumption of which is nearly all domestic, has advanced $2 a ton. The railroads are placing more orders. A considerable increase in car building is expected this fall to enable the roads to handle the crops. Rail orders are small, but many of the rail mills are engaged in rolling other material. Wire mills cannot fill the demand, largely a result of the war. The demand for structural steel is below normal, but improving. The price of pig iron is rising and production is increasing.

From 20 to 25 per cent. of the steel business now results from the war orders. To that extent, therefore, the steel business is not as significant of general business conditions as it usually is. It is true that activity in that line helps other business through the gradual improvement in retail trade in the sections where steel mills are located, the retail buying being passed on to wholesalers and miscellaneous manufacturers. But this process does not result in any such wide-spread and healthy activity as would be the case if domestic requirements gave rise to the entire demand which is now keeping the steel trade busy.

In the Pittsburgh district the iron and steel plants are now operating at 95 per cent. of capacity. If this included only domestic and the usual small export business, operations would not exceed 75 per cent. and probably not 70 per cent.

* * *

IT is necessary, therefore, in considering present business conditions, to allow for the unusual circumstances. Great activity in war order lines spreads into other sections of trade but slowly. This is plainly indicated by the bank clearings outside New York, which were a little less in June than in June, 1914, and so far as reported for July do not show any increasing tendency.

Business failures, however, are becoming smaller. They are running about normal for the season and are making the most satisfactory showing since 1912.

Railroad gross earnings, another important index of general business activity, do not yet show any tendency to increase. They are running substantially the same as in 1914 and 1913—both dull years.

Moreover, it must be borne in mind that all business indices that are measured in terms of money are affected by the great rise in prices that has taken place since last year. In June, 1914, Bradstreet's index of average commodity prices was 8.62, while it is now 9.86; that is, $1,000,000 of bank clearings now represents the movement of considerably less goods, as measured by weight or quantity, than the same sum represented a year ago.

* * *

RECENT buying in the stock market has been of a somewhat indiscriminate character. Even if conditions were all that our most rosy-cheeked optimists imagine them to be, it could not be expected that stocks would go up all the time. And there are, it is unnecessary to say, some unsatisfactory features in the situation—not the least important of which is a lagging bond market. Nothing indicates the supply of capital for permanent investment better than the average price of bonds, and bonds obstinately refuse to advance.

After such an enthusiastic response as the market has made to the war orders recently placed, a reaction is naturally to be expected. We may grant that the war has brought new conditions, requiring a readjustment of our customary viewpoint; but it has not, in our opinion, brought conditions that justify a continuance of wild speculation for the rise at this time.

Our relations with Germany, also, are far from being on a satisfactory footing. For some weeks speculators have determinately put this subject behind them, but at any moment it might come forward and demand attention. We believe that 1915 will prove to be, generally speaking, a year of expansion, but the present moment strikes us as a time for temporary conservatism.

Photo by Underwood & Underwood.

Steel Dividends In Sight?

Present Position and Prospects of Steel Common

By NORMAN MERRIMAN

THE change that has taken place in the steel business in the last six months demonstrates the accuracy of Carnegie's famous "prince-or-pauper" characterization of the industry. The U. S. Steel Corporation in January of this year reported net earnings amounting to $1,687,150. The earnings for the month of June totaled $11,343,070—*an increase in five months of approximately 680 per cent.* In this period unfilled orders increased 430,000 tons, in spite of the fact that operations in January were at the rate of about 40 per cent. of productive capacity, as against an average of approximately 80 per cent. in June and 90 per cent. at the present writing.

It seems strange that periods of great activity in the steel business should follow so soon after periods of severe depression, but this is typical of the industry. In 1904 the net earnings of the company totaled only $73,000,000, but in 1906, when the recovery from the depression was complete, the company earned considerably more than twice this amount, the earnings amounting to $155,000,000. In 1907 the high water mark of $161,000,000 was reached. During the year following the company earned only $91,000,000, or less than 58 per cent. of the previous year's earnings. Again, in 1913, the company was able to show profits amounting to $137,000,000. Last year the falling off amounted to about 50 per cent., the company showing the smallest total of net earnings in its history, the figure amounting to $71,000,000.

The earnings for the first three months this year made a poorer showing than any other quarter in the history of the company, as a deficit existed after payment of interest and sinking funds. How great an improvement which has taken place since can be seen by the fact that earnings for the month of June alone were *nearly as great as for the whole first quarter,* while the total for the second quarter of the year showed the interest, sinking fund and preferred dividend requirements cleared, leaving a balance of $8,267,000—or 1.62 per cent on the common stock.

The market for U. S. Steel common has naturally reflected this improvement, the stock having risen from a low of 38 in February, when the divident on the common stock was passed, to a high of 68 in July up to the time of writing. At the low price the stock showed that the public felt that there was little hope of dividends being re-

sumed for a long time to come, but the present high level discounts a return to a dividend basis in the comparatively near future.

Why Dividend Was Passed

The officers of the Steel Corporation, in reducing the dividend last fall from 5 per cent to 2 per cent, were evidently influenced not only by the poor earnings of the company but by the chaotic industrial conditions existing the world over. At that time no one could fortell what the future would bring forth, and in cutting dividends in order to conserve cash resources the directors were adopting a safe and sane policy which no one could criticize. As earnings continued to fall off in the last three months of the year, it was the part of wisdom to pass the dividend which would have to be paid out of surplus.

In another three months, however, the situation will have changed very materially. If business is maintained at the same rate as in June, the company will show earnings amounting to about $34,000,000 for the quarter. This will mean a surplus over bond interest, sinking fund and preferred dividend requirements, amounting to about $14,000,000. If this is added to the surplus of the last three months we have a total of $22,000,000 which will just about wipe out the deficit of last year and the first three months of this year. If, as is possible, earnings should materially exceed the figure of $34,000,000 given above, the directors might then consider the resumption of common dividends. It seems probable, however, that the board will wish to restore to surplus the amount which was taken out during the fifteen months from January, 1914, to March, 1915. If, therefore, business does not show any serious falling off in the next six months, it seems altogether likely that dividends will be resumed at the meeting next January. If the earnings for July, August and September of this year should be as high as $40,000,000 the directors might decide to declare a dividend at that time.

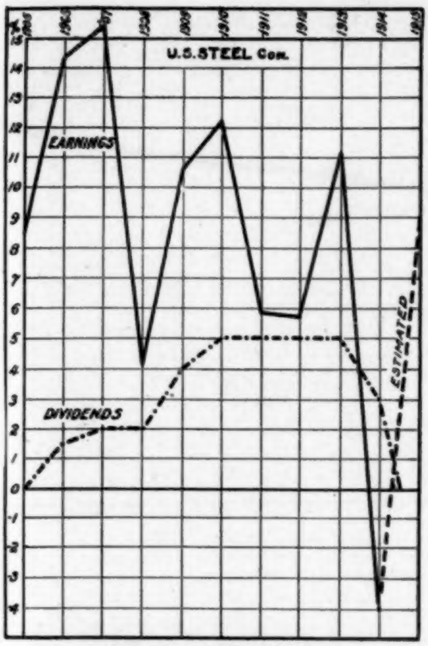
What the earnings of the next quarter will show is already a topic of discussion in the Street. The analysts point out the fact that there has been a steady advance in prices during the last four months. The company received little or no benefit from the advance in prices in the last quarter, as deliveries are not made, as a rule, until at least ten weeks after the receipt of orders. It was not until the latter part of April that steel prices showed any particular advancing tendency, so that only a small share of the business booked in that month at the higher scale of prices appeared in the June earnings.

As operations for July have not only shown no falling off, but have actually increased, it is fair to assume that the company should show net earnings for this month amounting to $12,000,000 or more. The higher prices should be reflected to a still greater degree in August, so that we may estimate a total of $13,500,000 for this month. If the next unfilled tonnage statement shows an increase of 400,000 tons or more, we may reasonably expect the earnings in September to reach the unusual total of $14,000,000. This would make total earnings for the quarter amount to $39,500,000.

The third quarter of the year has been, as a rule, the best quarter, so that even if business were to hold up unusually well we could hardly expect to see earnings better in the last quarter than in the third quarter. Assuming that the third and fourth quarter will be about the same, the net earnings for the year would amount to approximately $120,000,000. This would make the earnings on the common stock approximately 9 per cent. The declaration of a reasonable dividend from these earnings would be the logical thing to expect, especially in view of Judge Gary's statement made at the time of passing the dividend last February.

The Government Suit

Another feature which will probably be borne in mind by the directors when the question of dividend resumption is brought up is the fact that the company has little further to fear from the



Earnings and Dividends

Government. Last February many people feared that the U. S. District Court, which heard the argument in the Government suit to dissolve the corporation, would hand down an adverse decision, and that such a decision would have a very serious sentimental effect on the business of the country. While the Government has taken an appeal from the decision of the circuit court, there is little reason to believe that such an appeal will be successful, and it is more than possible that the appeal will be dropped.

As a speculative issue Steel common has always been the most popular issue listed on the New York Stock Exchange. The company is the largest industrial corporation in the world, and its securities have a greater distribution than any other. To a large extent the steel business is a barometer of business conditions in the country at large. For these reasons, if for no othters, the stock appeals to the imagination of the public, and it is consequently the most active issue, as a rule, of all those listed on the board.

It has been more difficult for Steel to advance during the last six weeks than for almost any other stock on the list. The last compilation of foreign holdings showed that more than 700,000 shares were held in England. This is, roughly, about one-eighth of the entire capitalization, and it is easy to understand why many persons should sacrifice Steel, a non-dividend paying issue, in order to take on British Government bonds which are selling to yield a higher income than at any time since the Napoleonic wars. That there will continue to be steady selling on this account and that every point advance will bring out new stock from the European holders, cannot be questioned.

Nevertheless the condition of the steel business of the country is so satisfactory, and the imagination of the public as a whole has been so thoroughly stirred by the spectacular advances in the "war brides," that it is hard to see why there should be any material set-back in the stock, barring the disturbance to sentiment which would result from a break in diplomatic relations with Germany.

Certainly the outlook for dividends on the stock for the next year is better than it was at any time in the early part of 1914, when business was in a stagnant condition, and the company was drawing on its surplus to pay the dividends on the common stock.

Col. Bope, of the Carnegie Steel Co., was not long ago responsible for the statement that the year 1916 would be the best in the history of the steel business, and that the productive capacity of the mills of the country would fall 40,000,000 tons short of the demand for steel products.

If Col. Bope's statement is correct the present is certainly no time to sell Steel Common. Prices of all steel products are showing a steadily advancing tendency which is likely to be maintained for the balance of the year. Everywhere in the country steel companies are erecting additions to their plants in order to take care of business already received or to prepare

for business which is expected to come in prior to the finishing of the new plants. As long as this new burst of industrial activity is only in its infancy, it is only fair to assume that we have as yet not seen the top prices for steel stocks.

Increased Efficiency

One of the most encouraging features of the present activity of the steel companies is the fact that new and more efficient metallurgical processes are being developed in the new plants. One of the unfortunate features of the high tariff on steel products in force for the last twenty years has been that, metallurgically speaking, the United States has fallen behind in the steel-making race, although prior to 1894 the steel companies of this country produced steel more cheaply and more efficiently than any other nation in the world.

In Europe today the old bee-hive type of coke oven is practically unknown, it having been superseded by the by-products ovens years ago. But in this country by far the greater part of the coke is still made in the bee-hive ovens. The U. S. Steel Corporation had, at the close of the last fiscal year, 21,923 bee-hive ovens and 1,172 by-products ovens, a proportion of nearly twenty to one. This probably represents the proportion existing in the country as a whole and is a sad commentary on the wasteful conditions fostered by the long continued high tariff on steel.

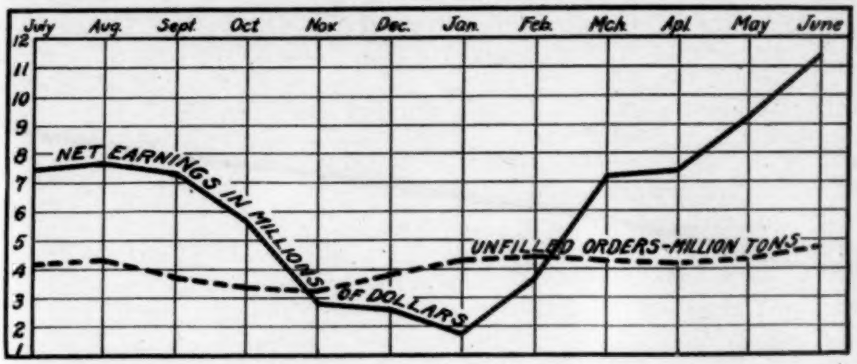
Metallurgists estimate that the saving in the cost of manufacture of steel, when all the by-products obtainable in the manufacture of coke are saved, amounts to $1 per ton. The output of the Steel Corporation averages about 11,000,000 tons of finished steel products per year, so that it is easy to see what a gain to this company there would be if the company made none of its coke in bee-hive ovens.

Fortunately for the steel companies, this country's supply of many coal tar products such as toluol, benzol, analine dyes of all kinds, carbolic acid, etc., has been almost entirely cut off by the war. The prices of these products have advanced to such a great degree that the steel companies, seeing the possibility of enormous temporary profits, and satisfactory permanent profits, are rapidly building plants for the manufacture of these commodities. The recent rise in the price of American Coal Products is due to the fact that this is one of the few companies in the United States producing these commodities on any large scale.

The benefit which all of the Steel companies of the United States will obtain as a result of introducing these new metallurgical processes will be permanent. Temporarily, profits from the sale of the by-products obtained from the manufacture of coke will be far greater than after the war is over, as Germany and Belgium cannot export these commodities at present. The benefit to the United States Steel Corporation, while it cannot be esti-

Year	Gross Sales*	Net Earnings*	Balance added to Surplus*	Percent. Earned on Preferred	Percent. Earned on Common
1914	558	81	†17	6.5	—3.5
1913	796	147	15	22.5	11.0
1912	745	117	3	15.1	5.7
1911	615	112	4	15.4	5.9
1910	703	150	11	24.3	12.2
1909	646	141	15	21.9	10.6
1908	482	99	10	12.7	4.0
1907	757	177	15	29.0	15.6
1906	696	165	13	27.2	14.3
1905	585	132	17	19.0	8.5

* In millions of dollars.
† Deficit for year.



Graphic Showing Net Earnings and Unfilled Orders

mated in dollars and cents at the present time, may be reckoned on as no mean factor in the future earnings of the company.

Not Now Overcapitalized

The Steel Corporation has always been a target for the critics who condemn over-capitalization. There is no doubt about the fact that at the time it was formed, there was a tremendous amount of water in its capitalization. Securities of the U. S. Steel Corporation, exchanged for those of the constituent companies, exceeded in par value those received, to the extent of $440,000,000. As the securities of some of the constituent companies were by no means worth par, it is easy to see that Steel common was practically all water and the preferred stock was probably part water, at the time the corporation was formed.

However, since formation of the corporation the surplus profits up to December, 1914, aggregated $335,000,000. As these profits are equivalent to more than 75 per cent of the value of the excess securities issued at the time of incorporation, there has undoubtedly been a very substantial equity created for the watered stocks. It is probable that the book value of U. S. Steel Common is somewhere between $50 and $60 a share.

The company shows in times of prosperity a tremendous earning power. The average annual earnings since incorporation have been about 8 per cent, and when it is considered that in the early years of the company's business there was practically no value behind the common stock, it is obvious that the earning power can be legitimately capitalized to some extent.

It is on earning power that the price of the stock is based, and so far as the immediate future can be gauged, increased earnings seem assured, which should be reflected in the market.

IF there is one thing to emphasize in the science of investment, it is that no rules can be laid down. We can only apply to every proposition the same practical business intelligence that we would employ in the management of our own personal affairs.

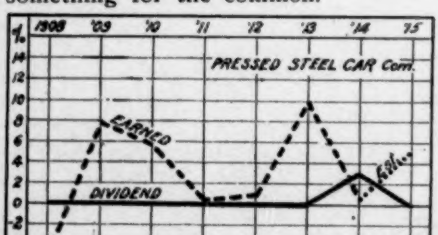
Earnings
and
Dividends

Pressed Steel Car

THIS is one of those stocks that are just now having an unusual push in it due to the chances of big earnings from its war orders. The company is fundamentally sound, but it is one of those concerns affected by the fluctuations in the equipment business, which fluctuations are large.

It is, therefore, one of those stocks from which an investor should be getting out about every two years, that is just about the time the full force and effect of the business-boom has spent itself. Witness the record of the company for 1913 and 1914. In 1913 it earned something like 10.55% available for its common stock and also put aside a fair amount for depreciation. In 1914 it earned only .14% and of course paid nothing.

At present we have a peculiar situation where the company's equipment work for the railroads at home is still very poor, but it has large orders for foreign governments out of which it may be expected to be able to earn something for the common.



But along with all these hopes from that $15,000,000 order, which it is said to have, we must not forget that the company has been very thin on its depreciation for years and that by "skinning" in this way it was able to pay its 7% preferred dividend. Only last spring it was expected this preferred dividend would be passed altogether. The coming of the war order seems to have saved that and have given hope for the common.

The truth of the matter is that the company should take about all its profits from war orders and strengthen its financial position rather than engage in common dividend payments. This may be judged from the showing of the graphic. With no serious amount for depreciation over five years and almost all surplus earnings with the exception of one year being drained off for preferred dividends the company has far to go to justify dividends on the common. But with the market in its present temper the common may have a big rise before some of these things are realized.

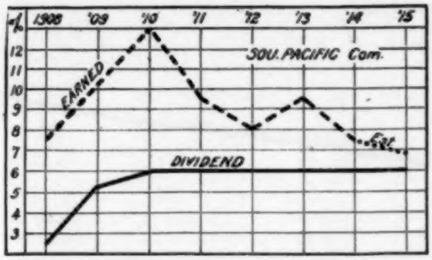
Southern Pacific

Hundreds of people all over the country are asking today if the dividend on Southern Pacific Co. is safe. They see the great slump in earnings that the system has had over the past year and immediately jump to the conclusion that it means jeopardy for their dividends.

It is true that the company has had a large decline in earnings but this has not occurred from the commonly ascribed reason, namely, the competition of the Panama Canal. Upon analysis it shows to have been a decline in traffic produced on the line and also a big drop in passenger earnings.

The large decline in earnings was due to general conditions more than anything else. With conditions as they are it bids fair not to be repeated this year. The crops are big, the travel to the Exposition is substantial and there is an element of general improvement in the situation.

It is a fact that the margin over dividends for the past year has been none too large, but as it will be observed



from the graphic in past years the company has earned enormous amounts more than available for its dividends which have created a substantial position. Furthermore, the company is a property that is very well maintained and no skimping is done to show dividends for the stock. In other words, when the figures show the dividend earned it has been earned and not at the expense of maintenance as has so often happened in other roads in the past.

The worst that would likely happen would be a reduction to 5%. A reduction below 4% would be unthinkable because that would invalidate some of its bonds as savings bank investments.

The chances are that only under the most adverse circumstances, long continued, would there be any cut in the dividend below 5%. Southern Pacific stock may be figured as not less than a 5% dividend payer for a long time ahead.

Investment Inquiries

NOTE.—Answers as published in this magazine are selected and condensed from the very large number of inquiries received from our readers. All such letters are answered by mail in advance of publication, hence stamped and self-addressed envelopes should accompany them. Subscribers' inquiries are given the preference in order of answering.

Republic Iron & Steel

E. F.—Hold your Republic Iron & Steel common. The steel stocks are likely to do better within the next few months. You can sell them almost any minute of the day, as they are actively traded in on the New York Stock Exchange. The preferred stock is cumulative.

Sloss-Sheffield

G. O.—Sloss-Sheffield (36) is one of the slow moving, low priced stocks. When the steel business improves, which seems to be the outlook for the immediate future, this stock will share in the effect thereof, which is a higher price in the market. It is not a general market favorite nor a market leader. It gets little attention. If you buy it now, you will probably get a profit on a general advance in the market. It has sold as high as 94⅝ in 1909, when it was receiving 5¼ dividends. But since that time, the earnings have been so poor that the outlook for dividends appears dim.

Westinghouse

P. M.—Westinghouse, now around 104, is a very good stock. The company has received tremendous war orders and its earnings bid fair to be very large over the next two years. As a 5 per cent. stock the present price is very high, but a higher dividend would not be surprising.

Chesapeake & Ohio

N. R.—Chesapeake & Ohio (39) is another stock that appears like a good speculation for a pull of some months. Under the arrangements a year ago, when its notes were extended, it must put back into the property about $17,000,000 in five years out of earnings. When, therefore, it has this accomplished, and becomes a dividend payer once more, it is likely to stay in the dividend class. The money going back into the property is constantly creating a larger equity, and the bullish factor in the stock grows. Over a long pull this stock should show handsome results.

Crucible—Republic Iron & Steel

J. T.—If all the rumor and war order talk in regard to Crucible Steel (45) is only approximately correct (the company having $100,000,000 war orders, it is said) this stock should go to very much higher figures. If you buy it, you must understand that you are speculating pure and simple—there is nothing conservative about the stock.

Republic Iron & Steel (33) ought to be a good purchase now because of the wave of improvement that is sweeping over this trade. The iron and steel issues are all popular now, so that for a pull we believe you will see substantial profits from a purchase of these stocks. On the preferred you may get dividends before the year is out. The common would have to wait longer.

Maxwell Motor

I bought some Maxwell first preferred and at its present price I have a nice profit on it. It is stated that the directors will arrange to pay off the 15 per cent. arrears on it.

I do not understand its recent decline. Is it possible that the company's large profits have been discounted? It seems to me an exceedingly low price still.

Another thing about this stock that I thought peculiar and that is that the second preferred 6 per cent. stock has been selling considerably under common stock, which is not on any dividend basis.

I want to make another investment and am undecided in view of the above whether I should increase my holdings in first preferred, or whether I should buy second preferred or common, or perhaps get out of this company and buy something else.—R. O.

Maxwell stocks have had a large advance, and are, because of their unseasoned status, peculiarly subject to the ups and downs of the market. They are far from the point of being investment issues, and are, to a large extent, held by people who have not put them away for a long pull and for income. Consequently they are very sensitive to market changes. This, to a large extent, explains their recessions.

The reason why the common stock should sell higher than the second preferred, is that the common stock is entitled to all money available for dividends after paying the allotted part on the second preferred. If, therefore, 17 per cent. is to be earned on the common, it is manifest that a certain ratio should be established between this fact and the market price. The second preferred which cannot get more than 6 per cent.

Maxwells have been essentially war stocks. If you should increase your holdings, it will be all the more incumbent on you to watch them closely, because some day the full force and effect of this war boom is going to be spent. Of course, the business all these companies are doing because of the war will put them in a better financial position, because of such a windfall, but the high speed business and earnings have got to come down considerably. For the time being, however, we do not think all the drive is out of the war stocks.

American Can

It is hard to know what to say about American Can common, it has had such a tremendous rise. The company is believed to have about $60,000,000 war orders directly and indirectly, and is expected to show a handsome income account this current year. Hence the speculation that has lifted the stock above 50. Without rather definite and authentic advice as to just what these orders mean, purchase of the stock would be considerable of a speculation. From the history of war stocks over the past few months, there is no telling whether this might not jump ten or twenty points further. You take your chances on this, however.

American Woolen

L. N.—American Woolen is enjoying a spurt of business due to the war, but it is normally in a rather uncertain condition, and for some time past a stockholder could not be sure for any length of time ahead that the dividend would be earned, and paid. It is this uncertainty that keeps the stock down. Public interest in it is not great.

Du Pont Powder

N. T.—We would not sell Du Pont Powder stock now. It would not surprise us to see it much higher. You may reasonably expect a dividend distribution of some kind. We are of the opinion that people who knew what they were doing have bid the stock up to the point where it is. We do not believe ordinary speculators have had much to do with the rise from 300 up to the present quotation.

Air Brake

G. B.—New York Air Brake has large war orders, from which it is expected to derive large profits.

The company's earnings for the next few months at least, will be big, which, of course, means that something in the way of dividends ought to be forthcoming. Just how much stockholders will get is the question. Doubtless the directors themselves have no idea just yet what they can or will pay.

If you should purchase this stock, you must keep these conditions in mind, and not buy it with the idea that it is a seasoned investment. The war business will cease some day.

Car & Foundry—Va.-Car. Chemical

R. B.—American Car & Foundry, as you have no doubt noticed by the papers, is one of the companies enjoying war orders. The common is not likely to get a larger dividend immediately. The company has a big surplus, and it is in a very good financial position. A good market in the steel and equipment stocks should add to its price.

Virginia-Carolina Chemical stocks have been depressed because the company suffered from the unusual conditions in the South due to the war. But lately its business has had a better tone, and the preferred dividends were put back again. The common stock has been very much higher than its present price, and we expect to see it go to higher levels again. Fundamentally the company is a good concern. Its business will come back when the cotton growers in the South get over the effects of the war.

Southern Pacific

J. G.—We see no reason to be alarmed over your holdings of Southern Pacific. The newspaper stories had to do with the Canal competition talk, and how that has affected earnings during the past year. On analysis, however, the facts show that it was not through business such as would be affected by Canal competition that caused the big decline in net earnings, but local business and passenger business. Of course the company has had a big falling off in net earnings during the year, and it is most natural for calamity talk to arise when the situation is thus. Last year the company earned nearly 8 per cent. on its stock, and this year will have a comfortable balance after dividends.

Great Western

A. T.—Chicago Great Western preferred (28) is an indifferent proposition and one which can only, we believe, show a substantial profit after a considerable pull. From an operating standpoint, the road is efficiently managed. From the standpoint of earnings, the road is not making much progress. For the eleven months ended May 31, gross was some $400,000 under the previous year for the same period, and net was about $50,000 less. This last is a very small amount comparatively, and really speaks well for the efficiency of management that could keep the slate so clear in a bad year.

For the completed year ended June 30, 1914, the company earned for this preferred stock $2.04 per cent. as against 3.03 per cent. in the year previous. You see, therefore, that for the year ended June 30, 1915, the rate of earnings will be slightly less than last year.

Lackawanna Steel Convertible 5s

Lackawanna Steel Cons. Convertible 5s, 1950, are not a conservative investment, but under the circumstances existing are a good purchase. The company is apparently enjoying a goodly slice of the prosperity that the steel companies are having as a result of the war, so that the margin of safety back of these bonds will be increased perceptibly over the next year. With the waning of the steel trade, whenever that may be, you should be ready to transfer into some stronger security.

Central Leather

J. S.—From May 1 Central Leather earnings will begin to give a much better account of themselves. The company during February and March suffered from an almost total absence of foreign buying of sole leather. Even yet this buying is not consequential. In addition, February and March were exceptionally quiet months in the domestic shoe industry, and this lethargic condition is only just beginning to break. When the shoe business gets down to 60 or 65 per cent. of capacity, it is useless to expect Central Leather to make a strong showing of profits.

It is learned that interests close to Central Leather affairs expect that 1915 as a whole will show profits for the common of at least 6 per cent. It is stated that it would not take more than two or three weeks of sustained sole leather buying to put prices back where they were—the highest level for sole leather since the Civil War.

It is to be remembered that Central Leather all through 1914 and so far in 1915 has had practically no help from its lumber business, and in good years the lumber sales alone ought to earn 4 per cent. on the common stock. A revival in general business would undoubtedly give Central Leather material help from lumber profits during 1915.

M. K. & T.

H. T.—As to the Missouri, Kansas & Texas matter, it is understood that there is being formulated by interests identified with the company a plan for putting the finances in good shape. It is generally expected this will include an assessment. We are inclined to the opinion that these interests will wait until they see how the Missouri Pacific plan works out before they launch a similar one for the M. K. & T.

U. S. Rubber

S. P.—U. S. Rubber will be a rather long pull, if you purchased it high. While the company is fundamentally as strong as it was when the full dividend was being paid on the common, the money is now to go toward reducing floating debt, and strengthening the company generally. We believe it will touch much higher prices eventually.

Butterick

S. B.—Butterick Co. in 1914 earned about 3.4 per cent. on its stock against 3.53 per cent. in 1913. Nothing of great importance has come out about the company lately. The company is not in a very strong position, which is reflected by the quotation for its stocks around 30. The stock pays 3 per cent.

IF the investor can buy sound stocks before a period of expanding business activity, he is sure of a profit in addition to his dividends.

Investment Digest

INDUSTRIALS

Allis Chalmers.—TRACTOR order for Russia received. It is not large. Forthcoming statement earnings in three months ended June 30 expected to be very good.

Amer. Can.—SECOND war order for $40,000,000 under negotiation. According to supposedly reliable sources the profits from its total war orders should be sufficient to call the bonds, pay off back preferred dividends and have enough left for both 7% on common and preferred.

Amer. Coal Products.—LARGE earnings expected from its war business direct and indirect.

Amer. Cotton Oil.—RESUMPTION of dividends talked of. On basis of showing for first seven months of year between 6% and 7% will be earned. No action expected before November meeting.

Amer. Hide & Lea.—FISCAL year to June 30 disappointing. Earned just over 7% on its preferred. Was expected to earn much more on its war business. Last year earned only ¾%.

American Malt.—STOCKHOLDERS being circularized by management and opposition committee for their proxies for meeting September 22, when vote will be taken to oust all directors.

Amer. Smelt. & Ref.—U. S. PLANTS working at capacity from which earnings of 10% on the stock should show. Company opening its plants gradually in Mexico, too.

Amer. Steel Fdries.—OPERATING at about 50% capacity and without war orders. Expected to do no more than earn its interest and sinking fund charges.

Amer. Sugar.—EXPECTS to get a considerably increased income from its beet sugar holdings.

Atlantic Gulf & W. I.—EARNINGS expected to run as much as 9% on its preferred stock.

Baldwin Loco.—WAR ORDERS aggregating $97,000,000 believed to have been received by Co., minimum to be $40,000,000. Large locomotive orders from abroad.

Bethlehem Steel.—PROFITS expected said to be equal to $500 per share on the stock.

Cambria Steel.—RESUMPTION of cash dividends begun. 1¼% was declared. Last three dividends were scrip.

Canadian Car & Fdy.—NET EARNINGS from war orders expected to run as high as $6,000,000.

Case Threshing Machine Co.—RECORD sales for the past six months. If crop conditions turn out right it will be a record year. Falling off of foreign business will not seriously affect Case as only 15% of its business is foreign.

Central Foundry.—SALE of two of its plants to big war order manufacturers said to be imminent. Nothing official about the story.

Central Leather.—EARNINGS of about 2.58% on the common for six months ended June 30 last.

Chicago Pneumatic Tool.—No recent war orders taken it is stated officially and plants running at full capacity.

Continental Can.—DIVIDEND expected on common stock at meeting of directors first week in September. Expectation is 5% payable quarterly.

Corn Products. — EARNINGS running ahead of last year which were 7.73% on the preferred. No progress being made in the government suit. For 6 mos. end June bal. after prfd. divs. was $530,252, compared with $321,940 last year.

Cramp Shipbldg.—CONTRACTS on hand are said to be sufficient to keep the company busy for the next eighteen months. Expected to earn over 20% on its stock this year.

Crucible Steel.—BUILDING factory in New Jersey to do great war order business and make torpedoes. All sorts of figures stated to represent this business all the way from $15,000,000 to $150,000,000.

Cuban-Amer. Sug.—EARNINGS for year to end September 30 next estimated to be about 60% on the common. Co. expected to pay up back preferred dividends, get rid of its $9,000,000 bonds before putting common on dividend basis.

Distillers' Securities.—LARGE contracts for alcohol for Allies. Dividend question expected to be considered in September. Expected to be 2%.

Electric Boat. — REORGANIZATION plans of the Co. expected to be made public shortly. Several shares of new stock will be given for one of old. All kinds of rumors afloat about the U. S. Government taking the plant, etc. Generally understood, however that it has large contracts for small boats.

General Electric.—SALES at the rate of $88,000,000 per annum. Earnings approximately 13% on its stock. Has not yet booked great war orders.

General Motors.—EARNINGS may run to an equivalent of 50% on the common stock. Nothing to be known on the matter until September, when the figures for the year ending July 31 will be presented.

Goodrich Co., B. F.—NET profits for six

months ended June 30 approximately $4,000,-000. Surplus available for the common stock after the semi-annual prfd. div. represented 5% on the $60,000,000 stock.

International Agricul. Corp.—EARNINGS expected to be able to meet interest charges but no more. Year ended June 30, but figures not yet available.

International Harvester.—OPERATIONS of the Company's plants about 60%. European sales greatly reduced by war. Fall trade will depend on harvests.

International Nickel.—DIVIDEND of 5% declared making 10% paid this year. War creating large demands for nickel.

International Steam Pump.—REORGANIZATION plan not yet. Has some indirect war business but not a great deal.

Lackawanna Steel.—EARNINGS of 5% on the common stock predicted for this year. If steel business keeps up as now going on next year 10% predicted. Doing a big business in chemicals and rails with foreign governments.

Maxwell Motors.—DIVIDEND accumulated on the 1st preferred may be paid off in additional preferred stock if suggestions of certain interests are followed. Divs. in arrears amounts to 15%. Co. planning to put out 60,000 cars of 1916 model.

Nat'l Enameling & Stamping.—EARNINGS for six months reported to be well over dividend requirements. This compares with deficit after preferred divs. in 1914 of $49,506 in 1914.

New York Air Brake.—EARNINGS from war orders expected to show approximately 25% to 30% on its stock. Believed the Co. has as much as $25,000,000 war orders on hand.

Pacific Coast.—COMMON DIVIDEND passed for last quarter. Circulars sent to stockholders showing the depression responsible.

Pennsylvania Steel.—MERGER WITH Cambria Steel talked about. Official denial made that any such thing was in the air. Pennsylvania R. R. and Frick interests predominate in Pennsylvania Steel.

Pneumatic Tool, Chicago.—EARNINGS stated by officials to be showing nearly double the dividend. Co. operating about 75% to 80% on regular business and filling capacity with additional work on war orders and automobile work.

Pressed Steel Car.—LARGE BUSINESS being done. Understood that 5,000 extra workmen would be put on by August 1. Large orders received from Russia for cars.

Republic Iron & Steel.—FULL OPERATION reported for all plants. Resumption of divs. on preferred stock expected in August.

Savage Arms. — CAPACITY BEING doubled to meet war order demand.

Standard Motors.—ADDITIONAL orders for 500 launches expected to be obtained through Electric Boat Co. Co. has much work.

Studebaker.—EARNINGS expected to reach 30% on the common this year. Domestic business expected to yield 20% and war order business another 10%.

Underwood Typewriter.—BUSINESS improving both foreign and domestic. Co. doing some war order work that is helping earnings.

U. S. Indus. Alcohol.—EARNINGS FOR the first six months at the rate of 10% on the common stock. Later earnings expected to show even more. Believed large foreign orders are pending.

U. S. Realty.—IMPROVEMENT in conditions. More building work going on than for some time.

United States Rubber.—DIVIDENDS on common not expected for two years in certain banking circles. Co. getting some benefit from war orders but not much.

U. S. Steel.—QUARTERLY net earnings for three months ended June 30 were $27,-950,055, compared with $20,457,596 year before and $41,219,813 in 1913.

Virginia Caro Chem.—PROFITS for year ended May 31 were considerably better than those for the previous year when 3.40% was earned for the common stock. Earnings of So. Cotton Oil subsidiary were much better. Rumors that the Co. is trying to make an arrangement to take over the Int. Ag. Corp. contract with the Tennessee Copper Co.

Westinghouse. — ADDITIONAL orders for about 2,000,000 rifles being taken by the Co. Estimated that Co. will make $18,000,-000 profit on its total orders for 2,000,000 rifles.

Willys-Overland.—OUTPUT now running about 400 cars daily. Co. made 70,000 cars in year ended June 30. Profits believed to have reached $8,000,000. Predicted that Co. will make $10,000,000 net in 1916.

RAILROADS

Atlantic Coast Line.—FULL dividend of 5% probably being earned for the current fiscal year. Depressed business conditions in the South affected the earnings badly.

Baltimore & Ohio.—JUNE EARNINGS showed great gains. Increase in gross actually and relatively greater than in both May and April. Transportation expenses were cut. In full fiscal year road earned about $650,000 over the requirements of the 5% dividends.

Buff. Roch. & Pitts.—ANNUAL report indicates a reduction of about 12% in gross

earnings for the year ended June 30 last. Safe margin over dividend requirements earned.

Canadian Pacific.—EARNED about 10% on its stock for the year just ended. Expected the large amount of war business being done for Great Britain will help the earnings materially. Dividend meeting on August 9.

Chic. Mil. & St. Paul.—DIVIDEND reduced to rate of 4%. Prospects of the road very good, although dividend earned for year ended June 30, 1915, was less than 4%.

Great Northern.—FISCAL year showed loss in gross of over $10,000,000, yet net was ahead of last year due to economies. Earnings equal to between 8 and 8½% on stock.

Lehigh Valley.—SURPLUS for year ended June 30 about the same as last year. Surplus for year ended June 30 indicated about $300,000 over the necessary 10%.

Miss. Kan. & Tex.—REORGANIZATION plan which is being formulated by directors' committee coming along satisfactorily. Tentative suggestion is to issue a new 1st preferred stock to be offered on special terms to present stockholders.

New Haven.—SURPLUS for the year ended June 30 was $2,270,000. Gross earnings decreased $2,073,000.

Pacific Mail.—SYNDICATE formation to take one Co. among three large banking houses in New York denied. Co. believed only to have sold two of its steamers to Chinese.

Pere Marquette.—ELEVEN months' balance available for fixed charges were $2,679,602 as compared with a deficit of $3,032,997 for the similar period of the preceding year.

St. Louis San Fran.—REORGANIZATION plan in the hands of the printers, but official details of announcement not expected for a month. Cash payment from stockholders expected to be $50.

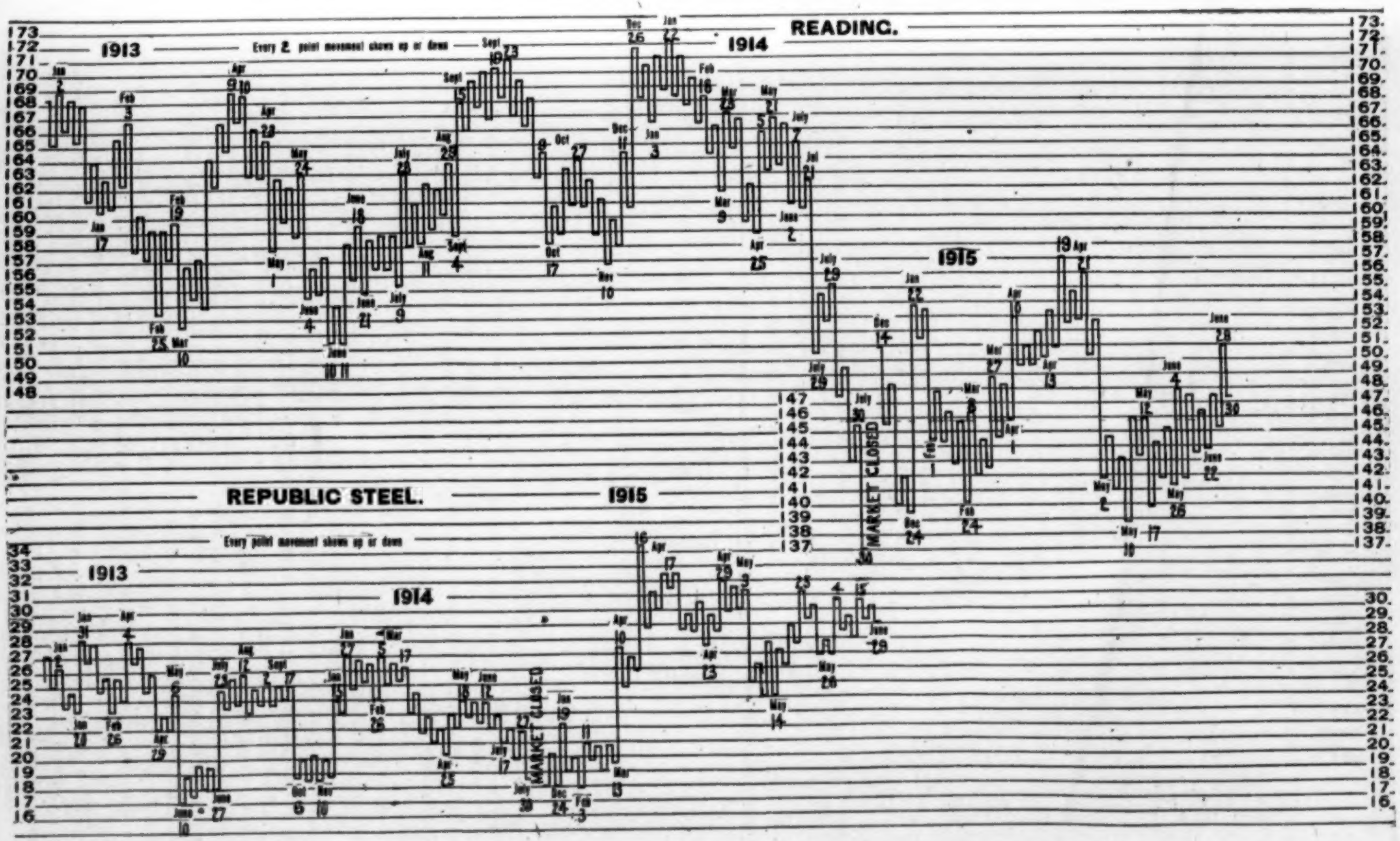
Southern Ry.—SOLD $3,500,000 Atlanta & Charlotte Air Line bonds for general improvement purposes along the main line.

Texas & Pac.—GROSS revenues for year ended June decreased $893,000, but operating expenses were reduced $620,000. After all fixed charges surplus was $1,010,000 against $1,485,000 last year. Co. suffered from general conditions due to the war.

Wheeling & Lake Erie.—SITUATION in this property dependent on Wabash-Pittsburg Terminal outcome. The success of this plan will not be known before September 1, when it will be seen how many bondholders will consent to the assessment.

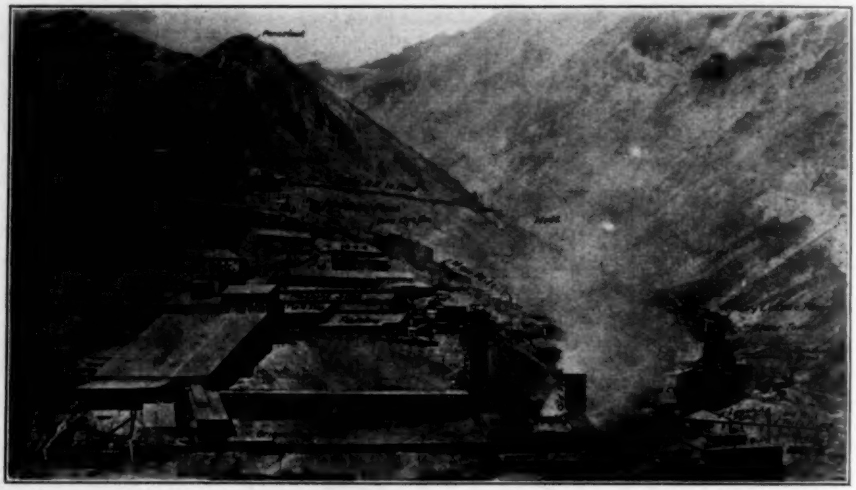
Market Statistics

	Dow Jones Averages		50 Stocks			Breadth
	12 Industrials	20 Railroads	High	Low	Total Sales	(No. issues)
Thursday, July 15	92.14	90.86	70.40	69.26	530,100	148
Friday, " 16	92.86	90.48	70.99	69.81	667,300	158
Saturday, " 17	93.12	90.26	70.94	70.21	418,500	146
Monday, " 19	92.04	90.68	70.93	69.51	721,400	163
Tuesday, " 20	91.77	90.93	70.81	69.58	446,500	167
Wednesday, " 21	92.45	90.87	71.67	70.29	664,900	146
Thursday, " 22	92.27	90.29	71.60	70.31	656,700	161
Friday, " 23	92.12	90.16	71.19	70.22	451,700	144
Saturday, " 24	91.91	90.16	71.23	70.56	286,800	121
Monday, " 26	92.21	90.00	71.56	69.68	901,800	158
Tuesday, " 27	92.59	92.50	73.11	70.97	879,500	166
Wednesday, " 28	93.10	92.25	74.48	72.71	1,121,240	177
Thursday, " 29	93.08	92.17	75.34	73.16	1,366,800	174
Friday, " 30	92.29	92.05	74.94	73.20	863,600	157
Saturday, " 31	92.18	92.02	74.24	73.36	250,900	126



Note.—It is planned to run in each issue a chart similar to the above on a leading stock. In the last issue appeared a chart showing United States Steel's movements from 1913 to date, and in the July 10th issue a chart showing movements of Bethlehem steel for the same period.

MINING DEPARTMENT



The Reduction Plant at Braden

Braden Copper

What's the Matter with Braden? The Answer Is Here

By C. S. BURTON

OCCASIONALLY the public falls into an attitude of indifference toward an issue that apparently ought to be a favorite and no amount of information seems to have any power to soften the heart of the public or arouse the enthusiasm of the shareholder. Apparently this is the case with Braden Copper. No copper stock is more neglected except by some of the few large holders who have been quietly accumulating offered stock. If we can explain why the present state of facts exist and why it should cease to exist, we will consider the purpose of this article fully accomplished.

To begin with, Braden has the third largest known copper deposit in the world among those capable of measurement. It is exceeded only by Chile Copper and Utah Copper; in addition, there is no other low grade milling copper, the ores of which carry as high a percentage of copper as Braden's. The average content of 50 pounds of copper per ton in 113,000,000 tons gives a figure in net copper, which puts Braden among the three mines named Braden, Chile and Utah and still further ahead of the other "porphyries."

To make it plain therefore, as to why Braden is not today a market favorite, it becomes necessary to go back to the days when the Fortuna and the Teniente were first made into the Braden. When Don Marco Chiapponi, who was mentioned in a recent issue of the Wall Street Magazine as one of the leading figures in mining and smelting industries in Chili, first sold the property to William Braden and his associates, it was purchased as a comparatively small property showing some high grade ore that would be cheap and profitable to handle. The first financing done in behalf of the Braden contem-

plated the possible expenditure of half a million dollars at most, but to provide against any possible deficiency, the new owners provided $600,000, which was to be more than would be used, in any event. Braden has been constantly growing away from every estimate made and is still growing. The original development was made with the idea of taking out possibly two million dollars in the way of net profits quickly; Instead there has been about $14,000,000 spent upon the property and the original holders are still waiting for a dividend.

"What is the matter with Braden?" is one of the questions that has become worn with asking. Primarily, there is nothing the matter wih Braden. Its development has been somewhat retarded by a series of petty accidents and mishaps, that caused delays just as every builder or contractor has now and then a job that does not go smoothly as compared with the other occasional job that moves along with good luck attending everywhere. None of the mining, milling, concentrating or smelting problems present any difficulties that have not been overcome or will not be overcome simply as matters of adaptation and practice. Physically there are no troubles that are not simply matters of detail to be overcome by good management.

There is needed additional treatment capacity and this is probably a part of the reason for Braden's cold treatment marketwise. To properly treat this factor it is necessary to turn to the financial organization of the Company for a moment. The issued capitalization of Braden is in round numbers $13,000,000, for convenience sake we are considering all bonds as converted at par. The sums derived from the sale of these securities net for the company's treasury can only be approximately estimated, as the management has never issued any financial report; but, it will not be far out of the way to take this sum as about $8,500,000; which has fallen short of the accumulating needs of the property, by about $5,500,000. This latter amount has been advanced by the Guggenheim Exploration Company. If, as it is stated, there has been about $14,000,000 spent upon the property, the money has been derived from the two sources mentioned, the sale of securities, money borrowed from the Guggenheim Exploration Company and from earnings; the latter now amount to something like $2,800,000 per annum, or possibly $3,000,000, as the company is now making some 30,000,000 pounds of copper annually, at about 9 cents a pound, and must have been realizing for some months now, a profit of 9 or 10 cents a pound. It may seem to be a somewhat circuitous route we are travelling, but a little patience will show that we are not wasting steps.

It could hardly be good judgment to work so large an ore deposit as the Braden on its present basis. Reference to the table will show that figures have been worked out on Braden with an anticipated production of 10,000 tons of ore per day and a recovery of 100,000,000 pounds of copper yearly, which plans are now in course of preparation and which procedure has been approved by the engineering staff. The present mill capacity of the Braden is about 3,000 tons daily, with occasional larger daily tonnages. To get the present mill to handle 4,500 tons per day and then add new mill and smelting capacity in the form of additional units as outlined will cost money; somewhere between another $4,000,000 to $6,000,000. The present floating debt due the Guggenheim Exploration Company is as stated $5,500,000 or a little more.

Now we have the situation before us. Braden stockholders own a very large property that is producing at a profit, but they already owe five and a half to six millions and need about as much more to expend on the plant. While these facts have not been long definitely known, there has been enough uncertainty in the situation and a constant deferring of an initial dividend date to account for the market action of the stock. The Guggenheim Exploration Company management has been quick to say that it was wholly content with its loan, and ready to increase it, if necessary, in addition to which the Guggenheim interests now hold about one-third of the outstanding capital in stock and bonds, making the total investment of these interests in Braden about $11,000,000 and inasmuch as

they have been very recently heavy buyers accumulating some twenty thousand shares or more within the past sixty days around $7 per share, one feels almost justified in concluding that Braden is even better than its analysis shows.

The Teniente and Fortuna ore bodies, which constitute the Braden mine, are found lying around the crater of a volcano long since extinct. Roughly the formation is like a glue pot with one side roughly chopped away. The development work has been done by adits or tunnels, which are driven around the crater following the inner wall, the distance from tunnel portal to portal being about one and three-quarter miles and, on more than one level, almost this entire distance is in ore. Cross cuts have been driven outward from various points in these adits, in some cases for a distance of more than five hundred feet, likewise all in ore.

The lower tunnel, known as Teniente No. 1, is utilized as a main haulage tunnel and ore from all levels is dropped to this tunnel level through ore chutes, and from the portal is sent by tramway to mine and smelter.

Name of Company	Ore (Tons)	Copper (Per cent.)	Pounds per Ton	Pounds Total Copper	Per cent. Loss in Treatment	Pounds Net Copper	Cents Cost per Pound	Cents Profits on (per pound) 13c. Copper	Total Profit in Dollars	Annual Production (Pounds Copper)	Life Propert
‡Braden (full capacity)..	*113	2.5	50	† 5½	25	† 4¼	7	6	*254	*100	4
Braden (present basis)...	*113	2.5	50	† 5½	33	† 3¾	9	4	*151	* 30	12
Chile (full capacity)......	*303	2	40	†12	10	†11	6	7	*756	*360	3
Inspiration (full capacity)	*100	1.5	30	† 3	15	† 2½	8	5	*127	*100	3
§ Ray Cons. (present basis)	* 75	2.21	45	† 3	36	† 2	8¾	4¼	* 91	* 60	3
Ray Cons. (expected basis)	* 75	2.21	45	† 3	15	† 2¼	8	5	*143	* 80	3
§ Chino (present basis)...	* 90	1.75	35	† 3	37	† 2	7.35	5.65	*112	* 72	28
Chino (expected basis)...	* 90	1.75	35	† 3	15	† 2¾	7	6	*160	* 80	34
Utah Copper	*342	1.45	29	†10	33	† 6½	8.13	4.87	*324	*160	42
Miami	* 36	1.85	37	† 1	30	†10	9	4	* 37	* 36	26

* 000,000 omitted. † 000,000,000 omitted.

‡ It may be objected that Braden's present position is the true one for comparison and we have according wo

§ It may be objected that Ray and Chino will benefit by installation of flotation plants. We have therefo worl of increased production and longer life, with the results as shown.

Comparative Tabl of

The treatment plant of the Braden, as shown by the cut, consists of two mills, and the smelting plant, which, at this time, have a capacity of about three thousand tons of ore per day. The company is a licensee of the Minerals Separation Company, Limited.

It is quite worth noting that the present recoveries at the Braden are considerably higher in percentage than that achieved at any of the porphyries in the United States, though the latter are all likely to show much improvement by the adoption of flotation treatment. The absence of all hoisting costs is an important saving for Braden, the ore moves downward by gravity continually from the moment of breaking down in the mine until its treatment is complete.

The table of comparisons which accompanies this article has been worked out along a somewhat novel line. The final result is the yield % upon the present market price, over the life of the property, after deducting the investment over a period of twenty years. The price of copper was taken at thirteen cents, so that present abnormal profits do not show.

Life Property (Years)	Capitalization (Dollars)	Number Shares	Dollars Par Value	Profit per Share (Dollars)	Annual income per share during life of mine	Present market price of stock	Annual amount required for return of investment in 20 years	Net annual income after deduction to cover purchase price	Percentage return on investment
42	18,000,000	3,600,000	5	$70.62	$1.68	$7.50	$0.375	$1.305 for 20 years 1.68 for 22 years 1.50 for 42 years	20
126	13,000,000	2,600,000	5	58.23	.47	7.50	.37½	$0.10 for 20 years .47 for 106 years .49 for 101 years	7
30	110,000,000	4,400,000	25	171.81	5.72	21.00	1.05	$4.67 for 20 years 5.72 for 10 years 5.02 for 30 years	24
30	23,000,000	1,150,000	20	110.86	3.70	30.00	1.50	$2.23 for 20 years 3.70 for 10 years 2.70 for 30 years	9
36	14,549,290	1,454,929	10	63.10	1.80	24.00	1.20	$0.60 for 20 years 1.80 for 16 years .85 for 36 years	3.5+
36	14,549,290	1,454,929	10	98.60	2.74	24.00	1.20	$1.54 for 20 years 2.74 for 16 years 2.08 for 36 years	8⅔
28	4,349,700	869,940	5	128.88	4.60	45.00	2.25	$2.35 for 20 years 4.60 for 8 years 3.40 for 28 years	7.5+
34	4,349,700	869,940	5	185.00	5.50	45.00	2.25	$3.25 for 20 years 5.50 for 14 years 4.20 for 34 years	9⅓
42	16,244,900	1,624,490	10	200.00	4.77	67.50	3.35	$1.42 for 20 years 4.77 for 22 years 2.50 for 42 years	3.7
26	4,000,000	800,000	5	47.27	1.82	27.50	1.37½	$0.44½ for 20 yrs. 1.82 for 6 years .76¼ for 26 yrs.	2.8

worked it out with the result of 7 per cent. for 126 years.
worked out an analysis giving these properties all the benefit they could possibly derive therefrom by way

of Porphyry Coppers

Mining Inquiries

Miami

F. A. F., Wisc.—Miami Copper is at a little disadvantage in comparison with other porphyries on account of its size. Its ore reserves as of December 31, 1914, are estimated at 36,500,000 tons, not including some 6,000,000 tons of oxidized ores. This compares with a hundred million tons for the Inspiration, which adjoins the Miami. On its present basis Miami has a life of about twenty-five years. Its copper costs range from 9.10 cents per pound to 10.6 cents, which is not particularly cheap as porphyries go, when compared with six cents for Chile Copper or seven and a half for Chino.

In making investments in copper stocks, you should endeavor to pick out those which are coming to full production where you can count upon some appreciation in price. You must bear in mind that all mines are liquidating assets, and must stand a depreciation charge equivalent to amount of ore removed continually.

Nevada Consolidated

M. M., New York.—You have probably considered Nevada Consolidated as an attractive purchase in the copper list on account of its comparatively low price, and its dividend yield, without considering the possible length of life, and the time which it would require to cover the return of your investment. As Nevada's ore reserves now stand, the company has a life of about 15 to 16 years.

You must, therefore, figure to have your capital returned in, say, ten years to be on the safe side. This would require $1.50 of your $2 per year for ten years. A little study of these conditions will show you why it is preferable to get into coppers that are in the development stage, even if not paying dividends, rather than to buy into properties that are nearing the end of a productive career.

You must remember that a mine is a constantly wasting asset. Ore in the ground cannot be replaced, and every dividend must be divided into part return of your capital, and only part income, and not considered in the same way as a distribution made by a railroad or an industrial company. Nevada was one of the first low grade milling coppers and a great mine, but it will also be one of the first to pass into history. Try to get into one that is coming instead of going.

Copper Production

W. S., Milwaukee.—The question which you ask in reference to copper production goes to the heart of the statistical position of the metal, and the important element is consumption rather than production. We have seen the world eat up twenty years, and those who know most about the situation are the ones who are strongest in their faith that the world will need all of the copper that will be produced.

Undoubtedly there will be more metal turned out during the next ten years than we have ever seen in any like period, but there is no apprehension of any surplus accumulating to be carried at great cost. For one thing the important producers are all working in closest harmony, and if it is necessary to cut down production temporarily, that will be done. In our opinion, the copper situation was never so strong as it is just now.

Arizona Commercial—New Arcadian

E. J., Mass.—Arizona Commercial is producing about 400,000 pounds of copper per month, and earning about $30,000 per month. The ore is going to the Copper Queen Smelter. Arizona Commercial is still in the prospect state to a certain extent, but it will probably reach the point where it can make returns to a shareholder sooner than New Arcadian. This latter company is making some mill runs for test purposes. Up to the present time these tests have been satisfactory. However, it will take some time for the Arcadian to prove and open up its ground.

Miami

E. H. B., N. J.—With reference to Miami copper, it is not altogether surprising that the stock should have the market action that it has when an analysis is made that goes a little further than the mere matter of dividend return. You must always remember that a mine is a wasting asset. Miami has less than 40,000,000 tons of ore and has a life estimated at something like twenty years.

The present purchaser of the stock must figure on making a sufficient charge against his dividends to wipe out the purchase price of the stock, that is to say, if one figures that the property has a life of twenty years, and the stock is bought at $25, for example, he should figure that the stock should be paid for to be perfectly safe within ten years. This would require $2.50 a share against his dividends over a period of ten years. The stock now pays $3 per year. One should, therefore, figure the actual income to be 50 cents per annum on the investment which would be at the rate of 2 per cent. per annum. If Miami were to have a long life ahead of it, this would be an entirely different proposition. The 11 per cent. of which you speak in your letter must cover not only income, but must also return the purchase price of the stock within the twenty years, and, to put it another way, it would take nine years of that period to get your investment back on the present rate of dividend return.

We trust this explanation will give you some line on the market action in the stock. We consider it the only proper way to analyze mining securities.

Mining Digest

Alaska.—TREATING 5,000 tons of ore a day which is running $1.68 and treated at a cost of 64c. per ton. Expected 12,000 tons per day will be treated in not distant future, but before this capacity is treated another $1,000,000 bonds may be issued for additional power.

Allouez Mining.—PRODUCTION running at the rate of 12,000,000 pounds of copper per year, although on first six months' record year should be finished with something like 10,000,000 pounds.

Amalgamated - Anaconda. — AMALGAMATED certificates are now stricken from the list of securities on N. Y. Stock Exchange and Anaconda shares take their place.

Arizona Commercial. — PRODUCTION for June was between 350,000 and 400,000 pounds, which produced net earnings of approximately $30,000. July output will be as large.

Braden.—PLAN for financing the floating debt not yet announced. Output for the half year ended June 30, 15,238,000 pounds. Estimated cost of production 8½c.

Butte & Superior.—QUARTERLY statement due at end of July expected to show profits equal to the rate of $28 per share. Expected a distribution of $7 per share will be made in September.

Calumet & Arizona.—EXPECTED to take its proportion of the New Cornelia bond issue. Expected its large earnings will enable purchase of $2,500,000 to $3,000,000 and still enable it to pay $5 or $6 per share in coming year.

Calumet & Hecla.—DIVIDEND of $15 per share expected at meeting of directors early in August. Producing 90,000,000 pounds at cost of 90c. per pound.

Champion Copper.—DIVIDEND of $1 more declared making $16 since Feb. last.

Chile.—FIRST SHIPMENT has been made to Europe. Daily shipments of ore to the mill are running about 4,000 tons against 10,000 tons the capacity of the first unit.

Chino.—PRODUCTION running about 7,000,000 pounds per month and as cost is less than 10c. a pound company making an approximate net profit on its output of $700,000.

Consolidated Coppermines. — ANNUAL report for 1914 shows an operating deficit of $104,651. New management expected to do considerable with property.

Copper Range.—DIVIDEND resumption expected before the end of the year. Co. earning at rate of over $4,500,000 per annum or better than $12 per share.

Eagle & Blue Bell.—RESUMPTION of dividends at rate of 10c. in June as compared with 5c. share in October, 1914.

East Butte.—PRODUCTION for June understood to be 1,500,000 pounds. Expected to be able to maintain production at this rate permanently.

Granby.—RECORD BREAKING year expected. Output of all plants believed to be running at rate of 48,000,000 pounds per year. On present volume of business believed to be earning $27 per share.

Greene Cananea.—PRODUCTION for July expected to run between 2,500,000 and 3,000,000 pounds. One half of the plant is operating. Can earn $7 to $10 per share on 20c. copper. Full capacity not possible for at least six months.

Miami.—PRODUCTION of 3,740,426 in June, which was a new high record month. Costs coming down close to 8c. With some new facilities in progress of construction completed Miami will be able to handle 4,000,000 pounds monthly.

North Butte.—PRODUCTION for quarter ended June 30 showed 4,490,324 pounds. Output increasing and now operating about 90% of capacity.

Old Dominion.—PRODUCTION for July expected to be 3,000,000 pounds. On such an output and 19c. copper the company can earn $12 to $13 per share.

Quincy.—PRODUCTION this year expected to be between 21,000,000 and 22,000,000 pounds.

Ray Consolidated.—OUTPUT for June was 4,431,127 pounds.

St. Joseph Lead.—STOCK DIVIDEND expected to be declared in September. Current talk has it 25%. Production constantly expanding. High prices for lead helping greatly.

Tamarack.—RUMORED sale of the property to Calumet and Hecla. The matter is in the air but officially it is said nothing has been done in the matter.

Utah.—OPERATING now at full capacity. Has done as much as 28,000 tons in one day recently.

THE average man is an optimist regarding his own enterprises and a pessimist regarding others.

TRADERS' DEPARTMENT

Explaining Present Stamp Taxes on Security Transfers

The State
and
War Taxes

By ROBERT L. SMITLEY

A CANVASS OF CLIENTS of any brokerage firm, relative to their knowledge of the various stamp taxes which a broker pays, would result in an appalling display of ignorance. The following examples are given for the benefit of such clients in the simplest form and as briefly as the subject will permit.

New York State Tax

This is a tax of 2 cents for every $100 par value of stock or fraction thereof, sold or transferred. There may be no actual sale of stock, but if transfer is made, the tax must be paid.

There are no loop-holes in this law and there are no special rulings or exceptions; for it is, without doubt, the most rigid tax which has ever been put on statute books. A customer, if incautious, may be compelled to pay the tax on his purchase as well as at the time of his sale. "A" buys 100 Union Pacific on margin. The day Union is ex-dividend arrives.

The broker must transfer the stock to his, the broker's, name to guarantee collection of the dividend. The transfer is made, of course, with the original sales ticket-stamps attached. Later "A" decides to pay for the stock and have it put in his own name.

The original sales stamps have been used, so that the broker must charge "A" an extra $2 on the 100 Union to effect the second transfer. "A" could have saved this charge by giving his broker a blank power-of-attorney when the stock was purchased and had the 100 Union transferred at once to his own name. When "A" sells the 100 Union he is charged $2 for the stamp effecting the sale.

Federal Tax on Stock Sales

The amount of this tax is the same as that of the New York State law, only the broker has more leeway in the matter of transfers. "A" buys 100 Union. The broker transfers the stock to his (the broker's) name, using the original sales ticket. Later, "A" decides to put the stock in his own name and, in this case contra to the New York State law, the broker need not pay any tax for this transfer.

Under the ruling of the United States Treasury, Decision 2073, the broker writes or stamps a formula on the certificate disclaiming any ownership and certifying that the transfer is only for the purpose of "completing the purchase," and no tax is required.

The reverse of this scheme is also permitted by the Federal authorities. Suppose "A" is a married woman and she sells her 100 Union. If the stock is in her name, it is obviously not acceptable to the buyer, under Stock Exchange rulings, without certain notarial attests. In this case the broker transfers the certificate to his own name to make it more acceptable to the buyer. By writing or stamping another formula, acceptable to the Federal Government, on the certificate, guaranteeing no ownership and affirming that the certificate is being prepared "for completing sale," no tax is required.

There is yet another ruling by the Federal Government to assist the broker and free him from tax obligations. Suppose Smith & Co. borrows 100 Union from Jones & Co. against a short sale by "A" with the proviso that the stock will later be returned in the name of Jones & Co., which situation is of daily occurrence. When "A" covers his short sale and the certificate purchased is sent for transfer by Smith & Co. to the name of "Jones & Co.," the transfer offices will accept the broker's affidavit as to the situation involved and no federal tax is required.

The reverse of this "borrowed" stock ruling is not allowed. Smith & Co. are brokers. "A" is long 100 Union. "B" sells short 100 Union and "A's" stock, being on margin is used by Smith & Co. for "B's" short sale. "A" decides to pay for his stock in full and instructs Smith & Co. to transfer it to "A's" name. Smith & Co. now have to borrow 100 Union in the open loan market, but it may happen that the certificate delivered to Smith & Co. on this borrowing will be of a later date, as to its issue, than the sales ticket accompanying the original purchase by "A" and therefore of no use for transfer.

The broker has no interest in "A's" stock except that he has used the original certificate for another of his clients, and he must stand the cost of a $2 Federal tax stamp.

It is incumbent on the part of "A" to make certain that the broker does not make a charge against him.

Bonds

In a general way, the tax regarding bonds, by the Federal Government, ruled that whenever a broker acted as agent in the sale of bonds, a 10-cent stamp must be attached to each sales ticket, irrespective of the amount or value. If the broker owned the bonds, he need only make such affirmation on the sales ticket, and no stamp is required. But if Smith & Co. sold $50,000 U. S. Steel 5 per cent. for "A" to ONE buyer, only 10 cents in stamps was required because there was only one sales ticket to accompany the bonds.

If Smith & Co. sold $50,000 U. S. Steel 5 per cent. for "B" to FIFTY different buyers, fifty 10-cent stamps would be required, one for each sales ticket. The application of this law was therefore farcical. "A" paid 10 cents' tax for the same sale on which "B" paid $5.

It was not very long until a way was found to overcome this defect. Stock Exchange authorities ruled that bonds could be delivered on sales of members "without sales tickets." Thus, almost all brokers make such deliveries of sales of bonds without bill, ticket, or any memoranda whatsoever.

The bonds sold are deposited at the buyer's office and the messenger simply asks for a check for Smith & Co. for the proper amount. The unjustness of the law forced this method of evasion on brokers, and the client who is today charged with a tax on bond sales usually finds a more up-to-date broker to take his bond business.

There are some brokers, however, who continue to pay the bond tax and deliver bonds with sales ticket, or bill, but the practice of the other firms in not paying the tax precludes the more conscientious broker from charging the tax to his client.

Powers of Attorney

The Federal Tax law imposes the affixing of a 25-cent stamp on each

Cost of Caring for Taxes

2 clerks at $25 per week each	$2,600
1 clerk at $10 per week (about)	500
Federal Tax items, including above, and for loan agreements, reports, etc., about	500
New York State Tax—extra for transfers for dividends, etc., not charged to clients, about	1,200
Extra stationery, books of record, time of regular clerks, petty losses, about	500
Total cost to broker—yearly—in addition to the immense amount deducted from clients	$5,300

power of attorney. In the course of ordinary business, some stock certificates have as many as four or five powers stamped on the backs. The fulfillment of the law to its letter would have imposed a double tax and an intolerable burden on all brokers and clients.

Within a month after the law was in effect the Federal authorities ruled that certificates of stock with powers on the back were exempt and no charge is ever required from broker or client today for this feature.

How the brokers succeeded in escaping the tax on borrowed money, demand and time loans; how they must act as agents of the government for collecting the tax on foreign dividends such as Canadian Pacific R. R. Co. stock or Anglo-American Oil Co. coupons; and how much they are obligated in the matter of monthly and yearly reports under the Income Tax Law—these are technical and do not directly affect the customer.

It will be of interest to clients of brokerage houses to know that in any large firm, the cost of caring for these various tax items, government reports, collecting bond coupons for customers and other like incidentals is approximately as appear in the table on the opposite page—or a total of more than $5,000 for each large brokerage office.

The writer has not touched upon the tax requirements relating to cotton trading, coffee trading, cottonseed oil, sugar trading and other commodities, all of which is purely a Federal War Tax and totals to enormous figures for both customer and broker.

ANENT BETHLEHEM STEEL

A Letter to the Editor

In view of the great advance in Bethlehem Steel Stock, permit me to suggest that I am of the opinion present readers of your magazine would appreciate a re-print of the article you published on Bethlehem Steel Company in your issue of November, 1913.

As a former employe (I was machinist 15 years ago), prior to the time Schwab was connected with it, when I look at the tremendously wonderful plant there today, compared to what it was seven or eight years ago, I cannot help but feel that the general public, even at present prices of the stock (255), does not appreciate what Bethlehem Steel is, and I would not be surprised to see its stock sell higher than Lack. R. R.

My advice to anyone thinking of selling it short is to invest $3.85 in railroad fare, go to Bethlehem, and see the wonderful property. Such a person should also get a copy of the U. S. Government committee report, after investigating strike there several years ago. This would give some good information as to their labor costs. They may have raised wages since, but he will find 90 per cent. of their men getting extraordinarily low wages.

This report is official and very comprehensive.

Yours truly,

W. G. Y.

(One of your old subscribers.)

Scale Trading

Selection of a Suitable Stock

By SCRIBNER BROWNE

IN the last issue I pointed out some of the difficulties and limitations of scale trading. I will now try to point out how the method may be applied successfully.

This does not mean, of course, that I can give you a rule for getting rich quick, or even a rule for making money slowly. The most I can do is to point out how a man of good judgment can use the method of scale trading with the best results. It is quite true that said man of good judgment could probably make reasonable profits in other ways, without the use of the scale method; but scale trading is one practical way of going to work, and doubtless a way that will appeal more strongly to some operators than the various other methods that might be employed.

For reasons explained in the last issue, I am not a believer in the plan of buying on a scale down and taking profits on a scale up—that is, for example, buying every two points down and taking two points net profit on each trade. This is one of those ideas that look plausible but do not work out well in actual practice. The profits are too small in proportion to the risk and to the amount of capital that must be held in reserve for use when the price of the stock makes a considerable move against the trader—as it is almost sure to do at times.

I don't dispute that fact that such a plan can be followed by a trader of good judgment and some profits secured; but I believe that after commissions, taxes and interest on stocks are deducted, and allowance made for the interest lost on the capital which must be held in reserve ready for use at any time, the net profits will not be large enough to pay the trader for the time and study involved and compensate him for the risk he has to take.

A Practical Idea

I will now explain the kind of scale trading that does appeal to me as practical for those that prefer a method of that kind. First, a stock must be selected that would naturally be expected to have a trend in one direction or the other. The illustrations I give will be on the bull side of the market, as that is undoubtedly the side on which nearly every one would prefer to work. At times, however, conditions might warrant the use of the same general plan on the short side.

Second, not only must the trend of the individual stock selected be upward, when operating on the long side, but the trend of the market as a whole should be upward. That is, general financial conditions should favor operations on the bull side, as well as those conditions which directly affect the particular stock selected.

For example, take Erie common. An article appeared in the last issue which explained why the general situation of that road is favorable, so that earnings may naturally be expected to increase rapidly when business conditions improve. Well, then, if we are to work on the bull side of that stock we should select a period when business conditions appear likely to improve—not *after* they have improved, which is the mistake made by many traders, but when they *have been* poor but have stopped getting worse and are beginning to show signs of getting better.

The price of Erie common has reflected the relatively strong position of that road for several years:

	High.	Low.
1913	32½	20¼
1914	32½	20⅛
1915	30	19⅞

This shows that the war panic of 1914 did not carry the price of this stock any lower than it had gone in 1913, in

spite of the rather depressing conditions that have surrounded railway stocks in general. Also, the price has shown great resiliency, recovering last April to within 2½ points of the high of 1913 and 1914. This exceptional power of recovery was due to the growing earning capacity of the road, which has been interfered with only temporarily by unfavorable business conditions.

It will be seen that the trader who began at 30 to buy Erie common every two points down, or even every one point down, would not have accumulated any very burdensome line of the stock even though the greatest war of the world's history burst upon him while he was in the midst of his campaign. But, on the other hand, if he took only two points profit on each of his purchases, his profits would be relatively small considering the time required and the amount of capital involved.

It seems to me that a much better plan is to begin buying on a scale just as soon as both the two sets of conditions above named appear to be favorable—that is, conditions directly affecting Erie, and general business conditions—and if the campaign works out as expected, to take profits on the whole line when the *highest purchase* shows a profit of say two points. If the campaign does not work out as expected, then the trader should *get out even* as soon as he has an opportunity. to enable him to do this, the price will have to recover only a little over one-half the decline. For example, the trader who has bought Erie at 30, 28, 26, 24 and 22, can get out even at 26⅛.

The Philosophy of Plan

The philosophy of this plan is, of course, obvious enough. If the trader is right and both general and special conditions are favorable to an advance, then the price should at least go *somewhat higher* than where he began to buy before any considerable decline sets in; hence he tries for a two-point profit on his highest purchase. But if he should prove to be partly wrong, it is nevertheless unlikely, at a time when his judgment was that all conditions were favorable, that his stock will decline so steadily and persistently that it will not have a rally equal to more than half its previous decline, or enough to enable him to get out of his entire line without loss.

It is impossible to eliminate judgment from profit-making. But on this plan the trader's judgment has got to be absolutely and entirely wrong in order to make his operation show a permanent loss.

In fact, he would have to be wrong on both counts. If he is wrong on general conditions but right in the selection of a growing property, the market may move temporarily against him but the strength of his stock will eventually pull him out all right. We have a good illustration of this in the decline of Erie common during the war panic of 1914.

On the other hand, if he is right on general conditions but wrong in selecting a stock that has no special prospects of growth, it is not probable that his stock will decline very much while general conditions remain favorable. It would have to be a pretty rotten one to do that.

Applied to Steel Common

On page 479 of the last issue (July 24) appeared a chart of the price of Steel common from January, 1913, to July 17, 1915. Suppose we apply this plan to that chart and see what a trader *of average judgment* might expect to accomplish.

We will assume at the start that the trader believes in Steel—he thinks the company is in a relatively strong position, that the demand for its products must continue to increase and that Steel common is more likely to sell higher in the long future than to decline in value. If he did not think this he would select some other stock.

Without crediting him with any extraordinary ability to forecast coming conditions, let us assume that in the spring of 1913 he makes up his mind that if Steel declines below 60 it will return to that figure. He therefore

begins to buy at 58 and purchases, let us say, 20 shares every point down. At 50 he has accumulated 180 shares, which average him 54. In August he closes out his entire line at 60¼, with a profit of $1,080. As the stock was then paying dividends, these have about covered his interest and taxes.

When the next decline comes, suppose he feels no more bullish than he did in the spring, general business at that time being rather dull. He therefore buys again at 58 and at 54 he has 100 shares at an average of 56. He realizes again at 60¼, with about $400 profit. In April he has another opportunity, buying 40 shares at 58 and 57 and getting $100 profit at 60¼.

The next time he tries it, the war catches him. This was a very exceptional condition—the most exceptional, in fact, that could well be imagined—but let us follow him through and see how he comes out. From 58 down to 39 he would accumulate 400 shares, at an average price as low as 48 and perhaps lower, because owng to the successive reductions of the minimum on Steel he would several times have bought two or more lots on the opening several points below his scheduled prices. April 19, 1915, he would have sold his entire line again at 60¼, with a profit of at least $4,500 after allowing for interest and taxes.

Having seen Steel down to 38 and back up to 60, it is probable that the trader would have courage and confidence enough to resume his purchases when the price declined to 58, and he would pick up another $100 April 29.

His next campaign would give him 200 shares at an average of 53½, and at 60¼ in June his profit would be over $1,250.

We may then summarize the results of a little over two years work as follows;

Capital needed	$8,000
Greatest amount trades went against him at any time	4,000
Profits, about	7,430

In order to accomplish this result the trader needed:

(1) Very large capital in proportion to his initial purchase.
(2) Unlimited patience.
(3) A good deal more courage than the average trader has.
(4) A fair degree of judgment.

Doubtless no trader in the world has followed Steel through its recent history in any such systematic way as outlined above; but many traders have followed the general plan of accumulating Steel on the declines and closing out when a reasonable profit was in sight and they have, during the above period, made money.

Perhaps I should repeat that the above is not presented as a patent scheme of making money. My object is to describe and illustrate the kind of scale trading that seems to me most practical.

Scientific Study of Fluctuations

Is It of Any Use?—A Few Suggestions

EDITOR of THE MAGAZINE OF WALL STREET: May I take a moment of your time? After leaving an academic college, I attended a school of finance. It was there I became interested in the market. I have studied the market in the abstract. But I have found the practical end very different. I believe I have done more useless work in my study and have done some of the most impossible work from a logical standpoint.

I have read every book and magazine pertaining to the stock market. All say "conserve your losses and let profits take care of themselves." Sounds all right—so does scale trading—but these advices and suggestions do not go deep enough. What puzzles me is, why the need of a heavy margin if the losses are to be limited?

I have compiled a table on American Can and have endeavored to find the relationships between open and last, low and open, and low and previous day's closing quotations—this I have done with a view of finding approximately how much risk I must take for a profit. This table I enclose.

I have found that the opening price is usually higher than the closing price the night before and that if it were possible to limit one's losses to one point including commissions, total losses during the period covered would be 2⅜ points.

Do you think that this work is of any use? I find charts not of any use as far as teaching how to trade, only to give one an idea of what the market is like.—STUDENT.

The above letter is accompanied by a table of somewhat elaborate calculations in regard to American Can from July 1 to July 24, based on opening, high, low and closing quotations and volume of sales, from which the writer endeavors to draw various conclusions.

He asks us two questions: First, why should large margins be kept when close stop orders are to be used? This is easily answered. It is not necessary to keep large margins in the broker's hands in such a case, but if not kept there they should be kept in reserve for use if needed.

The purpose of this is to prevent the trader from being unnerved by a series of small losses. Until he knows from actual experience approximately what relation his profits will bear to his losses, and how many losses he may sometimes make in succession, he should hold relatively large margins in reserve. He is in much more danger of overtrading than of undertrading. This subject is fully covered in our recently published book "The Business of Trading in Stocks."

His second question is not so readily answered. He asks, "Do you think that this work is of any use?" Doubtless 99 out of 100 people in Wall Street would answer at once, "No." But we have never felt warranted in taking exactly this uncompromising view. Within certain limits, scientific methods of analysis can be applied to stock market transactions. If this is true, then no systematic study of the behavior of the market should be called useless.

It may not, and probably will not result in immediate profits. But how many scientific discoveries, no matter how valuable, do bring immediate profits? Very few—we might almost say none. The path of discovery is a long and steep one and is studded with stumbling-blocks. The student of these subjects must expect repeated disappointments. But this is not, from our viewpoint, sufficient reason for saying that such study is useless.

Nor can any particular branch of such study be declared useless. Admittedly, the scientific study of speculation is in its infancy, and no one can say who may succeed in making further advances in it or in what special direction he may be working when he attains success. How much encouragement did the inventor of the reaper or the cotton gin get? Who could have told in ad-

vance which one of the many men who were working along similar lines in those inventions would finally achieve success, or who would contribute most to the perfected result?

We do not see any particular value in the table which this correspondent submits—yet the value may be there. His work may represent the germ, the protoplasm, from which a valuable idea may eventually be generated.

A surprisingly large number of persons are studying scientific methods of speculation. When this magazine was founded, in 1907, there were but few. Without doubt one of the principal reasons for increased study of the subject has been the numerous stimulating ideas that have been suggested by articles in our columns and in our books.

To a certain extent all these students are traversing the same ground. They soon discover that the action of the market gives us three main factors which may be recorded and investigated: (1) Price. (2) Volume. (3) Time. To these a fourth might be added, for purposes of practical work, namely, number of fluctuations.

Opening prices have a certain significance because a larger proportion of outside orders are executed at the opening than at any other time of the day. Closing prices are worthy of special note because a considerable number of active traders prefer to "even" up their trades before the close if they can do so to advantage.

We should add, perhaps, that while scientific methods may be applied to the stock market, we do not believe that speculation can ever be reduced to an *exact* science. And it is just here that many students make a serious mistake. They spend a great deal of time trying to find some exact mathematical relation which will give them the key to future prices. We would not wish to make the arbitrary statement that such a relation can never be found, but our belief is that the stock market is not a mathematical proposition; that the influences which make prices are primarily economic; and that scientific methods must be applied to it in the same way as in the science of economics, and not as used in the exact sciences, such as trigonometry.

Therefore when "Student" asks us if his work is of any use we cannot reply categorically. We believe that the work of that large number of persons who are studying the market along similar lines is likely to be of use—though it might easily be that the cash return these students get from their work will not average as well as from the same amount of work applied to something else. But to the man who takes a scientific interest in the subject, this is after all a secondary consideration. He is usually doing the work in his spare time and because he is interested in it, as well as because he has an indefinite hope of some day hitting upon a "bonanza."

WHEN a perfectly sound security is selling at a price which gives a much larger interest return on the money invested in it than has been usual in the past history of that security, and larger than is usual for other similiar securities, owing to a general high rate for money, the investor may buy it with confidence that it will sell at higher prices at some later date when money conditions become easier. Likewise, when such a security reaches a price so high that the interest return on that price is abnormally low, the investor will sell, assuming that he will later have an opportunity to repurchase at a lower price.

Technical and Miscellaneous Inquiries

World's Stock of Money

A. S.—The world's stock of gold money, as computed by the United States Treasury Department, is approximately $8,480,700,000; silver money $3,132,700,000; and uncovered paper money $3,234,200,000. These figures are as of December 31, 1912—the latest available.

There has been some increase in gold and silver since that time, and a very large increase in paper in Europe since the beginning of the war.

Major Cycles

C. T.—In regard to major cycles, we would suggest that you read "How to Forecast Business and Investment Conditions," by Frank Crowell—price $1.06 postpaid, and Burton's "Crises and Depressions"—price $1.55 postpaid.

Stop Orders—Delivery of Stocks

Please give me a brief description of a "stop loss order."

Would also like to know the time that usually elapses between the placing of an order for stocks with the broker and the delivery of these stocks.—A. S.

A stop order is an order to sell when the price reaches a specified figure below the current market, or to buy when the market reaches a specified figure above the current market. A stop order may or may not be a stop loss order, but the stop order is most commonly used for the purpose of limiting the possible loss on a trade.

For example, if the price of Steel common is 61, the trader who is long of Steel may desire to limit his loss to three points. In such case he would put in a stop order to sell at 58. Some traders, however, might wish to go short of Steel if it went as low as 58, on the theory that if that figure was reached, a still further decline would be probable. Such a trader could order Steel sold at 58 on stop, although he had no previous trade in the market.

Exactly the same principles apply when operating on the short side.

In the active stocks stop orders can nearly always be executed at the exact price given. In some of the inactive stocks, or in times of excited and erratic markets, it may not always be possible for the broker to execute the stop order at the exact price specified. In these cases it is the duty of the broker to execute the order *at the market as soon as the price reaches the specified figure.*

For example, in the above case when Steel sold at 58, it would be the duty of the broker who had a stop order at that price to sell at the market, even though he could only get 57⅞ or ¾ for the stock. This would not often occur in Steel common, but might occur in some of the less active stocks.

The time needed for the delivery of certificates after a buying order is executed is usually from one to three days. A little time is necessary in order to get the certificate transferred to the name of the new owner.

If Your Broker Fails

Magazine of Wall Street, New York.
Gentlemen:

I do not understand how a broker can honorably fail. He has only his office expenses to pay, and his capital should be able to take care of them, he has no debtors or should have none, for if his clients do not pay their debit, he can at any time close them out.

A merchant fails usually because his customers do not pay, or for some unpreventable conditions, but the broker has no such good reasons.

I believe the "modus operandi" on page 402 of the July issue correctly stated, but the entire system is wrong.

The Stock Exchange presumably examines the applicant regarding his financial responsibility, and by permitting him to buy a seat, assumes or should assume a responsibility for him, and when the broker fails, the Exchange should take charge of the assets, permit the customers to pay their debit, take their property without cost or delay. The deficit, the Exchange should pay from a sinking fund, provided for that purpose, then when a broker advertised MEMBER OF THE N. Y. STOCK EXCHANGE, it would mean something; at present it only means that full commissions shall be collected.—A. P. F.

Sale of Stock Without Certificate—Ticker Abbreviations

Assuming that I bought 100 shares of a stock for cash and the new certificate is to be registered in my name, how can I sell the stock before the arrival of new certificate that must first be endorsed before being turned over to the broker? In my case the new certificate would not reach me until a week or ten days after the date of purchase of stock.—W. G.

If you desire to sell your stock before you receive the certificate, you can do so by keeping a margin account with the broker and selling the stock short. Of course you would have to keep a deposit with the broker sufficient to protect him in case the market price of the stock should go up between the time you sold and the receipt of your certificate. When you received the certificate you would turn it over to your broker, and he would deliver it, thus completing the sale.

For the abbreviations used on the tape, we would suggest that you purchase "The Ticker Book and Manual of the Tape"—price $1.50, which we can supply.

COTTON AND GRAIN

The September Wheat Enigma

By P. S. KRECKER

INTEREST in the wheat market centers largely in the September position. Regarding this an unusual situation presents itself. Ordinarily it is difficult to work up any bullish enthusiasm for September when a large crop is assured as it is this year. The weight of the movement invariably falls heavily on that position and depresses prices. This season is going to be an exception, however, in the opinion of many bulls and they are advising purchase for a substantial rise. Their advice is predicated upon two suppositions. One is that long deferred purchases of wheat for European account cannot be deferred much longer. They are encouraged in this view by the slight improvement in export sales and by knowledge of the fact that export business is far behind last year while it would appear that the needs of Europe are almost as urgent now as they were then.

Coupled with this export anomaly is the late movement of new crop winter wheat. This still is far behind normal and the bulls are hopeful that it will continue so far backward during the current month as to affect September deliveries. There can be no doubt that there is a large short interest in September. The bears long ago correctly diagnosed the price movement of that position and made a killing on the big break which carried values below the dollar mark. Many of these bears refused to be disturbed by the abortive effort of the bulls to squeeze July. The bull campaign in the month that has just expired deserves to be called a fizzle. The month went out far below the level at which most longs bought in spite of the tightness caused by delayed movement of new wheat. It would seem that, having failed to squeeze July shorts, the bulls have deferred their campaign until September. With a large and confident short interest outstanding, they might easily make a successful drive against the bears should their theories regarding exports and the movement of new wheat prove correct.

There are other bullish elements in the situation besides those mentioned. It is pretty well understood now that the Balkan countries are exporting their new wheat to Germany and Austria. Hence that supply is not to be reckoned with in distributing the world's surplus. New wheat is moving freely in Russia, but the door to the Dardanelles remains securely locked despite the valiant efforts of the Allied armies and navies. As far as outward appearance go those straits are no nearer open than they were three months ago. That being the case the export surplus of Russia, or at least the bulk of it, will remain unavailable for the world. It may be, moreover, that the supply which Russia would regard available for export even were the straits opened has been exaggerated in the public mind. It should not be forgotten that Russia exported virtually no wheat during the crop year just ended, although Turkey did not enter the war until many months of the struggle had elapsed. Exports of Russian wheat from August 1, 1914, to July 1 of the current year reached the pitiful total of 1,478,000 bushels. What this means is realized when comparison is made with the export movement of the previous season when the world took 170,000,000 bushels of Russian wheat, or with two years ago when her exports reached the total of 103,000,000 bushels. From these figures it would appear that the mere shutting tightly of the gates of the Dardanelles is not responsible for the lack of exports from Russia.

From the point of view of the bears the September position also has attractions, however, more indeed if anything than has the bull side. Estimates are

heard of a spring wheat yield of more than 300,000,000 bushels. As high as *320,000,000 bushels have been predicted compared with 206,000,000 last year. These forecasts are made with more confidence because of the utter collapse of the black rust scare. It is conceded now that the crop killers who were destroying spring wheat with rust two weeks ago were carried away by their imaginations when they foresaw the ruination of the crop. Black rust still is largely a chimera of these worthy "experts" and bids fair to remain one. Many observers do not believe it is possible for that particular pest to blight the crop because spring wheat is maturing so rapidly as to beat out the rust.

Optimistic reports also are reaching the market from Canada where as high as 300,000,000 bushels is estimated from this year's crop. That would compare with 161,000,000 bushels grown last season and with a high record of 231,000,000 bushels harvested two years ago. Another bearish argument is used with force and that is the possibilities of a heavy combined movement during September of winter and spring wheat. The delayed harvesting and threshing of winter wheat has operated to prevent normal marketing of the crop and has caused potential accumulations which are likely to hit the market with cumulative force when the movement starts in earnest. What with late movement of winter wheat and possible early start of Spring wheat, predictions of an avalanche in September do not sound chimerical.

Prudent traders will do well to avoid September entirely. The essence of successful speculation in futures is operations in distant positions. Leaving out of consideration operators who handle the cash article, the biggest and most experienced traders in wheat run away from near months without exception. They have learned that it is a most difficult operation to separate cash wheat transactions from future contracts if business is done in a cash month and that endeavors to dodge deliveries almost invariably are fraught with high risks. Longs of September should transfer their interest to December while shorts would do well to also transfer to the later position. While the outlook for September is more bearish than bullish, kaleidoscopic changes are possible at all times during a war market such as the present.

*This is written prior to the publication of the August crop report.

The Use of "Bids" and "Offers"

How to Safeguard Your Wheat Trades

By P. S. KRECKER

IN a previous article I showed that wheat may be regarded as a good investment when bought at or below 85 cents a bushel, and that the chances of making substantial profits on such an investment are excellent, provided the account is properly margined. Above 85 cents wheat becomes more or less of a speculative proposition. I will qualify this statement, however, with the opinon that when bought at any price under a dollar a bushel wheat probably will show a profit on the purchase at some time or other, while it may prove to be a very good speculation. Above a dollar a bushel wheat becomes a pure speculation. It may go higher and then again it may not. Every cent paid above that price increases the hazards of the speculation. Exception must be made of war years, for these invariably witness abnormally high values. The price of wheat always doubled, and in one instance it trebled, after the outbreak of

each of the last five wars of international importance. So that a price which may be dangerously high in normal times often is cheap in war years. At the same time fluctuations are invariably much wider and more violent in such abnormal periods; the market is subject to breaks unknown in other years, and again it has sensational advances, the effect of these extreme movements being to upset all calculations and leave the trader at sea.

Since the hazards of speculation invariably increase in proportion to the enhancement of values, the trader who buys wheat above a dollar a bushel must employ different methods than he would were he buying it at an investment level. Unless he has abundant capital he no longer can margin his account down to the irreducible minimum. Nor can he sit tight when the market displays reactionary tendencies, confident that ultimately it will advance. He must be prepared to take profits quickly when they come and he also must be ready to take losses when they are inevitable. Fortunately the wheat market has developed better machinery designed to limit losses in the event of one of those bad slumps the market suffers every now and then than any other exchange, so that it is possible to save one's self from disastrous losses if proper precautions are taken, although there is no such thing as absolutely preventing all loss. Before discussing this all-important phase of speculation in wheat a few hints to the prospective trader may prove helpful. When contemplating investment in this commodity, never plunge in blindly just because you hear that "it's going up." First survey the situation. Ascertain what the market has been doing in the immediate past as well as in the more distant. Inquire into the statistical position of wheat. Learn what news influencing prices has recently come out and what developments are expected which may affect values. The market invariably is doing only one of three things. Either it is virtually standing still, awaiting some development, or it is going down, or it is advancing. Usually when the market is idly fluctuating around the same level for some time it is feeling its way until something happens which indicates the next movement. When that movement starts, it is likely to prove a sustained one; the market is likely either to advanace to a new higher level or to decline to a substantially lower range of values. Something of the kind took place recently in the wheat market. Wheat was narrow and quiet for several weeks covering parts of April and May this Spring. During that period it never had a wider swing than 7½ cents in price, while the variations between closing prices were even narrower, not at most exceeding 5½ cents between the highest and the lowest throughout the whole period. The market was waiting. Suddenly it slipped out of its rut and a sustained downward movement started which did not stop until prices were about 30 cents lower. This movement consumed a month's time. Careful traders waited for signs of just such a decline which was not wholly unexpected to them and were not caught long of the market, but it would have been easily possible for thoughtless buyers to have gotten into the market at the wrong time had they failed to study the situation and become acquainted with easily ascertainable facts. For example, preliminary reports by the government had indicated that acreage was the largest ever planted and that the crop was making a good start, two reasons for expecting a big yield and therefore lower prices. Another was a falling off in foreign buying. Those persons who bought wheat just prior to this recent decline either ignored these bearish facts or else had not ascertained them.

I have said that the wheat market has developed more elaborate machinery for the protection of traders than any other exchange. Some of these devices are common to all markets. One of the latter is the "stop loss" order. It consists in placing an order to sell at some stated price below the market, the object being to liquidate in an emergency but not otherwise until you have a profit. Thus with long wheat at $1.10 you might place a stop order at $1. Then in the event of a quick break your broker would have a standing order to sell your wheat at $1 without further instructions from you. The stop loss order has ad-

vantages, but also has its drawbacks. One difficulty all traders who employ this device experience is to know just where to place the stop. It frequently happens that they place their stops too close to the market and that their lines are liquidated on what prove to be temporary reactions followed by substantial advances. The consequence is that they miss the advance and lose money whereas had they stood pat they might have made nice profits. Then, again, in the event of a real decline, stop orders are caught on the way down and expedite the break which may come so fast that your stop is not executed at the figure you specified but considerably lower. Stops mean to a broker that the amount must be liquidated at or below the figure specified. The result will be that your loss, instead of being limited, let us say to 5 cents a bushel, may reach 10 cents a bushel, or twice the loss that you contemplated. Of course, that would not be as bad as a loss of 15 cents a bushel, which might be sustained were no stop loss order placed, so that the stop loss system should not be condemned in toto. But it is well to know just what the disadvantages are.

Another way to limit losses in wheat is to employ the hedge. That is to sell against your purchase. Hedging is much practised in the wheat market. It may be done in two ways. One is to sell one future position against purchase of another. In that event the hedge is known as a "spread." Thus a trader may buy May contracts and sell July against them so that whether the market advances or declines he is likely to make money. The "spread," however, is a complicated operation which does not always work out as expected. It frequently proves to be a boomerang and shows losses at both ends of the account. At best it is a hazardous device and may well be left to professionals. Another way to hedge is to use the privilege. By that is meant to buy "bids" against long wheat. The systematic employment of privileges in the Chicago Board of Trade has given them a wide market of their own and places them within the reach of everyone. To the writer the use of privileges as a hedge of protective device appeals more strongly than either the stop loss order or the "spread." It is safer and it is simpler and it limits absolutely the loss to the figure specified in the transaction.

The employment of the privilege to protect a long wheat account was described briefly in a recent article on the various ways of trading in privileges, published in this magazine, but it may be well to descrbe this particular operation in greater detail here. The idea of buying a "bid" is to sell your wheat at a fixed figure in the event of a decline. That sounds paradoxical, but is literally true. You buy the privilege to sell, in other words. Take, for example, a trader who is long of July wheat at \$1.15. Let us suppose that he bought it on the recent decline of 30 cents a bushel. He has reason to believe that the decline is culminating but is not certain, and he wants to limit his losses in the event that the decline does go further. He can do this by purchasing a "bid" at a cost of \$5.25 per contract for 5,000 bushels. He can buy a "bid" good for either a day or a week. Let us assume that the market closes at \$1.15, the price he paid for his wheat. He fears that values will decline further the next day. After the close of the official session he gets quotations on "bids" for July wheat and finds that they are selling for \$1.12, good for 24 hours. He buys a "bid" for \$1.12. The next day the market breaks to \$1.10 and closes at that figure, a net loss of 5 cents a bushel. However, the trader in question having bought a "bid" good for 24 hours at \$1.12 has the privilege of "putting" his wheat, selling it in other words, to the seller of that privilege at \$1.12 and loses only the difference between \$1.15, the price he paid for his wheat, and \$1.12, the price at which he "puts" it to somebody else. He automatically limits his losses to 3 cents a bushel. It may be, however, that the market does not close at \$1.10 that day, but rallies to \$1.14 on the close. Where then does the trader stand who purchased a "bid" for \$1.12? As his "bid" was good only for 24 hours it is worthless now and he is out his \$5.25. But he probably would feel that it was worth that small sum to avoid the anxiety that

would have been his had he not purchased the privilege and then seen the market break to $1.10. He even might have been frightened into liquidating at the bottom to avoid possible further loss, and then would have been chagrined to have seen the price rally immediately after he had taken a 5-cent loss. Such incidents occur daily in an active wheat market and explain the inability of many traders to make money in wheat. Sometimes it is good policy, when all indications point to a bad slump the following day, to buy "bids" not only sufficient to liquidate your long wheat but to enable you to go short of the market for a turn. Thus if you are long of 5,000 bushels of wheat and fear a decline you could buy "bids" for 10,000 bushels. In the event of a break below the bid price you would not only liquidate your 5,000 bushels, but you would be short of the market for another 5,000 bushels and could take advantage of any break to cover and make a little profit. Such handling of a "bid" is however beyond the province of this article and the hint is thrown out simply to illustrate the possbilities of this system of trading.

While privileges are an excellent method of hedging against losses, it is necessary to use judgment in buying them. Otherwise it will be found that you are dissipating profits in buying privileges. Thus if you are long of 10,000 bushels and buy "bids" as a hedge against them daily you would incur a daily expense of $10.50, which could easily run into large figures if the market fails to decline to the bid price, which of course you do not want to see it do. Some traders get around this difficulty by buying weekly "bids" instead of daily ones as hedges against long wheat. Weekly privileges, that is privileges good for a week, do not cost any more than do those good for only 24 hours. A "bid" good for a week would hedge your long wheat for seven days instead of 24 hours and the expense would be only $5.25 for each 5,000 bushels. There is an important difference, however, and that is in the value of the privilege. Weekly privileges are invariably further away from the actual market than daily ones and in the event of liquidation on a "bid" the loss sustained is inevitably larger than it would be on a privilege good for only 24 hours. It is essential to the success of this system of trading that you invariably hedge in the same option. If you are long of July wheat then buy "bids" on July; if you are long of May wheat, buy "bids" on May. It is unwise, as a rule, to buy "bids" on July against long May wheat, or otherwise to hedge in an option other than that of which you are long. In a later article I shall take up the subject of "spreads" and show how they are operated in the grain market as a safeguard for wheat traders.

August Outlook in Cotton

BY C. T. REVERE

According to the Government Crop Report on the condition of cotton, published August 2, the production this season will be approximately 11,970,000 bales of equivalent 500-pound weight. The actual condition figures were 75.3 compared with 80.3 last month; 76.4 last year, and a ten year average of 78.5. The acreage, according to the Department of Agriculture, has been reduced 15.7 per cent. from the area planted for the season of 1914-15. Hence the deduction that the crop will be a trifle under 12,000,000 bales.

The action of the market, upon the publication of these figures, indicated considerable skepticism on the part of the trade. Cotton men could not so easily forget that the report last year on the first of August, made the condition of the crop 76.4. This indicated a production of only a little more than 13,000,000 bales, and the total crop, including linters, proved to be about 16,900,000 bales. Under the circumstances, it is little

wonder that the cotton trade is not ready to accept the Government figures at their face value.

It is true that the Department of Agriculture ascribed the big out-turn of the crop to the timely August rains in the Western belt. There is no guaranty that nature will not perform the same feat this season. As a matter of fact, the selling which depressed the market immediately after the issuance of the Government report was caused largely by reports of rains.

The trade has been more concerned over the situation in the Atlantic States than over the outlook in Texas. The plant in the Carolinas, Georgia and Alabama had shown the effects of too much rain early in the season, and was full of sap. In the latter part of July the weather turned dry and very hot. Temperatures around and above 100 degrees were quite common over the states east of the Mississippi River. The plant naturally was in no position to withstand such sudden and adverse change. Moreover, it is believed that heat and drought will do more damage to the cotton in the Eastern belt than usual, owing to the deficiency in fertilizers. It perhaps will be borne in mind that the Department of Agriculture issued a supplementary report in July, placing the decrease in the use of fertilizers at 41 per cent. Moreover, the reduction in the quantity of fertilizers does not represent the total loss. The quality also has been impaired by the decrease in the use of potash.

Already there has been a mobilization of resources to take care of the cotton crop when it comes to market. The Federal Reserve Board has prepared a plan for lending money on cotton, and there is very little likelihood that any such panic will be seen this year as the one which sent cotton to such low prices in October and November 1914. There are ample funds to finance the crop, but the staple which is offered as security must be warehoused and insured.

In its circular letter, the Federal Reserve Board says that there should be no difficulty in affording the producers the assistance necessary to enable them to market their productions in volume corresponding to the power of the trade to absorb them. In order to accomplish this end, it is suggested that Federal Reserve Banks adopt a definite policy with reference to rediscounting paper, secured by documents in satisfactory form. Through such a policy, together with proper watch on methods of warehousing, Federal Reserve Banks can be a potent factor in assisting the normal movement of staple products. The Board gives special attention to the marketing of the cotton crop, because it is greatly to the common interest that credits, based upon this crop, be protected as far as possible from the danger of demoralization. It shows that no staple commodity is subject to greater variations in price than cotton, and quotes figures showing average annual fluctuations on the New York Cotton Exchange of 5.38 cents per pound.

There has seldom been a time when so many contrary influences were at work on cotton. The international situation is a prime factor to be considered. If the British Government declares cotton to be contraband and decides to purchase an amount equivalent to Germany and Austria's consumption, by way of compensation to the Southern growers for the loss of the German markets, the effect on cotton would be very bullish. While the trade is skeptical that any such project will be carried through, it is by no means a secret that it is being seriously considered by the British Government.

The sentiment of the trade is bearish, on the assumption that the new crop, coming into competition with the old supplies, will bring about lower prices. The amount of cotton marketed from the last crop was 15,138,000 bales. This leaves a surplus in the hands of producers and small country merchants throughout the South, of approximately 1,700,000 bales. If, however, the Allies should buy and hold off the market 2,500,000 bales of cotton, the slack would be fairly well taken up, provided, of course, the present crop does not turn out to be a very large one.

The August weather, therefore, will be the thing to watch. If it is hot and dry, particularly throughout the Eastern belt, the crop will be only moderate in size, and might be a very short one.